



KPMG Corporate Finance LLC

Gastroenterology physician
practice M&A

February 2020

kpmgcorporatefinance.com

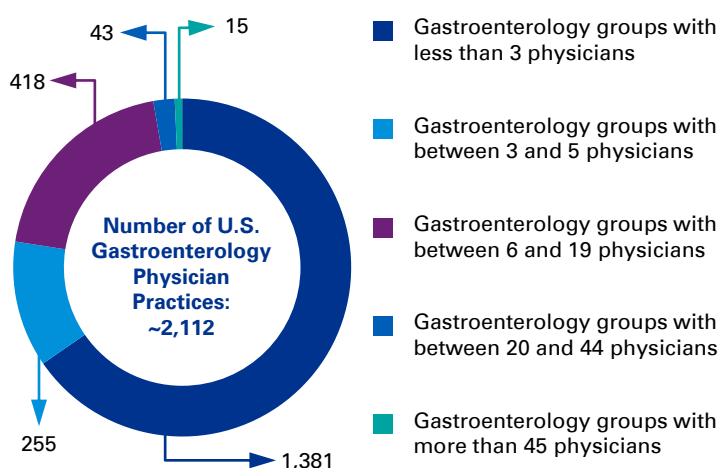


U.S. gastroenterology market overview

Strong sector tailwinds and expansion dynamics present major growth opportunity for GI practices in the U.S.

- Gastroenterology (“GI”) is the second largest subspecialty of internal medicine, 21 percent of the U.S. population are treated by more than 2,100 physician practices and ~13,500 physicians.⁽¹⁾
- GI diseases are responsible for three million hospital admissions, 144,300 cancer-related deaths and 97,700 deaths from non-malignant GI diseases.
 - Gastroesophageal reflux disease (“GERD”) affects more than 15 percent of Americans.⁽²⁾
 - Over 25 million people in the U.S. have gallstones and nearly one million new cases of gallstone disease are diagnosed every year.⁽²⁾
 - 75% of Americans over the age of 45 have hemorrhoids.⁽²⁾
 - Colorectal cancer is expected to cause approximately 51,020 deaths in 2019.⁽³⁾
- Aging U.S. demographics are another factor driving the increase in GI disease prevalence and procedures.
- GI practices are positioned to benefit from the increasing incidence of GI related problems and technological advancements in the industry such as endoscopic imaging technology.
- GI cases comprise ~29% of all ambulatory surgery center volume and that trend is expected to continue as payors remained focused on the hospital costs⁽⁴⁾

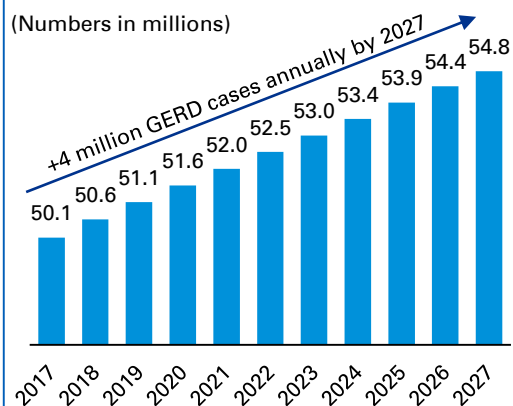
Highly fragmented U.S. gastroenterology practice market⁽⁷⁾



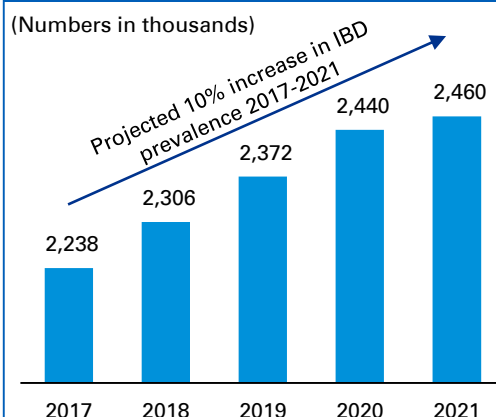
Sources:

- (1) Association of American Medical Colleges (excludes teaching, research, admin & other)
- (2) National Institute of Diabetes and Digestive and Kidney Diseases
- (3) American Cancer Society
- (4) VMG Health
- (5) GlobalData. IBD cases represent Crohns Disease and Ulcerative colitis case
- (6) U.S. Census Bureau
- (7) Practices with main specialty of Gastroenterology per Definitive Healthcare

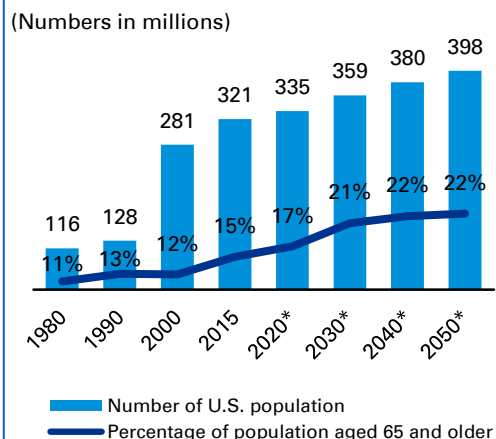
Number of GERD cases in the U.S.⁽⁵⁾



Number of adults suffering from IBD in the U.S.⁽⁵⁾



U.S. population overview⁽⁶⁾



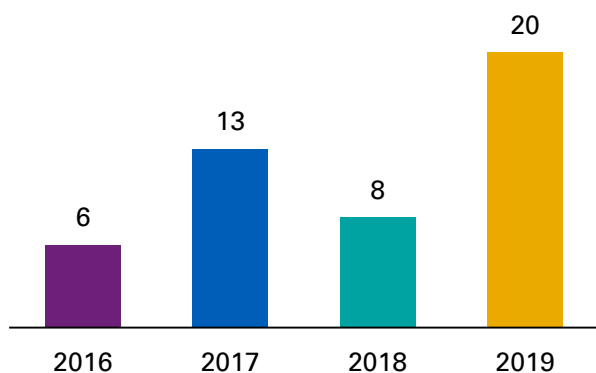
Gastroenterology physician practice M&A activity overview

Several factors are driving consolidation of gastroenterology physician practices by both strategic healthcare organizations and private equity funds

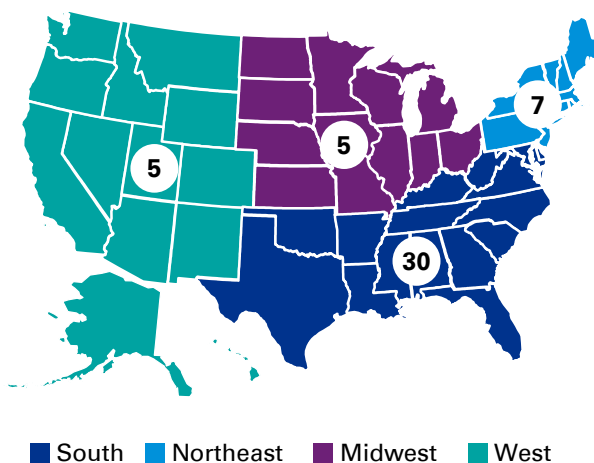
- The gastroenterology physician practice market is highly fragmented with only a few multi-state providers across the U.S.
 - There are 2,100+ gastroenterology physician practices in the U.S. and 94% of those practices are comprised of less than 10 physicians.⁽¹⁾
- Given the positive reimbursement environment and opportunities for diverse revenue streams, gastroenterology M&A activity has ramped up over the last few years.
 - The positive industry outlook has attracted private equity activity in the space and those platform investments continue to actively expand through add-on acquisitions
 - The momentum in deal volume is expected to continue in the coming years as the independent practices consolidate for the benefits of scale

Gastroenterology physician practice M&A activity⁽²⁾

Deal activity since 2016



Deal activity by geography since 2016








Sources:

⁽¹⁾ Definitive Healthcare

⁽²⁾ Capital IQ, Company websites, Press releases, Irving Lewin, Pitchbook.

Key factors driving consolidation activity in the sector

 Fragmented market	 Favorable macro trends	 Diverse revenue streams	 Regulatory environment	 Centralizing back office functions
<p>The specialty is highly fragmented and is largely served by smaller practices, which can be rolled up to form larger entities with favorable scalability.</p>	<p>Rising prevalence of GI related conditions, stable to increasing reimbursement rates and favorable payor mix present significant growth opportunities.</p>	<p>Increasing the number of specialties provided and maintaining multiple sources of revenue, makes the organizations more attractive for potential buyers.</p>	<p>MACRA demands higher quality reporting from GI organizations, and in order to meet these requirements it becomes imperative for smaller practices to merge.</p>	<p>Combining back office functions including IT, RCM, accounting, HR, etc. helps practices achieve economies of scale.</p>

Selected precedent gastroenterology M&A transactions (1/2)

Closed Date	Target Name	Target Location	Acquirer Name	Deal Value (\$ mm)
Dec-19	Peak Gastroenterology Associates	CO	Varsity Healthcare Partners	Undisclosed
Nov-19	Gastroenterology Associates of Northern Virginia	VA	Gastro Health (Audax)	Undisclosed
Nov-19	Amarillo Endoscopy Center	TX	The GI Alliance (Waud Capital)	Undisclosed
Nov-19	Center for Digestive & Liver Health	GA	United Digestive (Frazier Healthcare Partners)	Undisclosed
Nov-19	Indianapolis Gastroenterology and Hepatology	IN	The GI Alliance (Waud Capital)	Undisclosed
Oct-19	San Antonio Gastroenterology Associates and San Antonio Digestive Disease Consultants	TX	The GI Alliance (Waud Capital)	Undisclosed
Oct-19	Arizona Digestive Health	AZ	The GI Alliance (Waud Capital)	Undisclosed
Sep-19	Puget Sound Gastroenterology	WA	Gastro Health (Audax)	Undisclosed
Sep-19	Southeast Texas Gastroenterology Associates	TX	The GI Alliance (Waud Capital)	Undisclosed
Jul-19	Illinois Gastroenterology Group	IL	The GI Alliance (Waud Capital)	Undisclosed
Jul-19	Arizona Centers for Digestive Health	AZ	Covenant Surgical Partners	Undisclosed
May-19	Regional GI, Main Line Gastroenterology Associates and Digestive Disease Associates	PA	Amulet Capital	\$130.0
May-19	Gastroenterology Associates of York and York Endoscopy	PA	UPMC Pinnacle	Undisclosed
Apr-19	South Florida Gastroenterology Associates	FL	Gastro Health (Audax)	Undisclosed
Apr-19	Giles Gastroenterology Center (dba Gastroenterology Specialists)	FL	Gastro Health (Audax)	Undisclosed
Apr-19	Sterling Surgical Center	NY	Catholic Health System	Undisclosed
Apr-19	Southeast Gastro / Gastroenterology Associates	AL	Gastro Health (Audax)	Undisclosed
Mar-19	Cumberland Gastroenterology	KY	Lake Cumberland Regional Hospital	Undisclosed
Feb-19	Wilson Digestive Disease and Endoscopy Center	NC	Wake Endoscopy Center	Undisclosed
Feb-19	Gastroenterology Specialists	FL	Gastro Health (Audax)	Undisclosed
Dec-18	Atlanta Gastroenterology Associates (United Digestive)	GA	Frazier Healthcare Partners	Undisclosed
Nov-18	TDDC (The GI Alliance)	TX	Waud Capital	Undisclosed
Oct-18	Gastroenterology Associates of Fredericksburg	VA	Physicians Endoscopy	\$35.3

Sources: Capital IQ, Company websites, Press releases, Irving Lewin, Pitchbook.

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Selected precedent gastroenterology M&A transactions (2/2)

Closed Date	Target Name	Target Location	Acquirer Name	Deal Value (\$ mm)
Aug-18	Central Penn Gastroenterology Associates	PA	Evangelical Community Hospital	Undisclosed
Aug-18	Central Florida Gastroenterology	FL	Gastro Health (Audax)	Undisclosed
Apr-18	Bay Area Gastroenterology	TX	The GI Alliance (Waud Capital)	Undisclosed
Feb-18	Southwest Ohio Gastroenterology	OH	Clinton Memorial Hospital	Undisclosed
Jan-18	Digestive Health Specialists, Gastroenterology Associates, Northwest Gastroenterology Associates	WA	Washington Gastroenterology	Undisclosed
Dec-17	Sterling Surgical Center	NY	CH Emmaus	\$5.6
Oct-17	Digestive Center of the Palm Beaches	FL	Gastro Health (Audax)	Undisclosed
Sep-17	Gastroenterology Associates	WI	Bellin Health Systems	Undisclosed
Aug-17	Gastrointestinal Center of Hialeah	FL	Gastro Health (Audax)	Undisclosed
Jul-17	Digestive Health Physicians	FL	Gastro Health (Audax)	Undisclosed
Jun-17	Pediatric Gastroenterology Associates	FL	Gastro Health (Audax)	Undisclosed
May-17	Great South Bay Endoscopy Center	NY	Physicians Endoscopy	Undisclosed
May-17	Orlando Torres	FL	Gastro Health (Audax)	Undisclosed
Apr-17	Gastroenterology Consultants	FL	Gastro Health (Audax)	Undisclosed
Mar-17	South Palm GI	FL	Gastro Health (Audax)	Undisclosed
Feb-17	Douglas M. Weissman, M.D.	FL	Gastro Health (Audax)	Undisclosed
Jan-17	Gastro Health, PL, Galloway Surgery Center and Kendall Endoscopy Center	FL	Baptist Health South Florida Inc., Endowment Arm	\$21.1
Jan-17	The Lancaster PA Endoscopy ASC	PA	Regional Gastroenterology Associates of Lancaster	Undisclosed
Sep-16	Summit Gastroenterology	MO	Consultants in Gastroenterology	Undisclosed
Aug-16	Villages Endoscopy & Surgical Center	FL	Covenant Surgical Partners	Undisclosed
Jun-16	Gastro Health	FL	Audax Group	Undisclosed
Jun-16	Gastroenterology Specialists of Birmingham	AL	Gastroenterology Associates	Undisclosed
Mar-16	Cape Health Surgery Center	FL	United Surgical Partners International	Undisclosed
Feb-16	Midwest Digestive Disease Specialists And Optima Medical Associates	IL	DuPage Medical Group	Undisclosed










Sources: Capital IQ, Company websites, Press releases, Irving Lewin, Pitchbook.

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Select recent KPMG Corporate Finance LLC transactions

 <p>Project Lion</p> <p>A gastroenterology physician practice</p> <p>Ongoing</p>	 <p>Project Spring</p> <p>A gastroenterology physician practice</p> <p>Ongoing</p>	 <p>Project Wave</p> <p>An anesthesia physician group</p> <p>Ongoing</p>	  <p>Has been acquired by</p>  <p>Alignment Healthcare</p> <p>Closed</p>	 <p><i>Deer Meadows</i> Retirement Community</p> <p>Has been acquired by</p>  <p>investment360^o</p> <p>Closed</p>
  <p>Has been acquired by</p>  <p>INTRALIGN A portfolio company of</p>  <p>ALTARIS HERITAGE GROUP PARTNERS IN HEALTHCARE</p> <p>Closed</p>	  <p>Has been recapitalized by</p>  <p>BROWN BROTHERS HARRIMAN</p> <p>Closed</p>	  <p>Has been acquired by</p>  <p>NEW HARBOR CAPITAL</p> <p>Closed</p>	  <p>Has received growth investment from</p>  <p>BISON CAPITAL</p> <p>Closed</p>	  <p>Has been acquired by</p>  <p>Closed</p>

Select recent KPMG LLP Deal Advisory credentials

 <p>Compassion-First Pet hospitals (Quad - C) KPMG Deal Advisory</p> <p>Sell-side financial due diligence assistance on its sale to JAB</p> <p>Closed</p>	 <p>Heartland Dental (Ontario Teachers Pension Plan Board) KPMG Deal Advisory</p> <p>Sell-side financial due diligence assistance on its sale to KKR</p> <p>Closed</p>	 <p>DentalCorp KPMG Deal Advisory</p> <p>Sell-side financial due diligence assistance on its sale to L Catterton</p> <p>Closed</p>	 <p>Private equity client KPMG Deal Advisory</p> <p>Sell-side financial due diligence assistance on its potential sale of women's health mammography company</p> <p>Closed</p>	 <p>Audax Private Equity - Advanced Dermatology KPMG Deal Advisory</p> <p>Sell-side financial due diligence assistance on Advanced Dermatology's sale to Harvest Partners</p> <p>Closed</p>
 <p>Great Point Partners- Professional PT KPMG Deal Advisory</p> <p>Sell-side financial due diligence assistance on sale of Professional PT to Thomas H. Lee Partners</p> <p>Closed</p>	 <p>Center for Diagnostic Imaging KPMG Deal Advisory</p> <p>Financial due diligence assistance on sale to Wellspring Capital</p> <p>Closed</p>	 <p>Forefront Dermatology (Varsity Healthcare Partners) KPMG Deal Advisory</p> <p>Sell-side financial due diligence assistance on its sale to Ontario Municipal Employees Retirement System(OMERS)</p> <p>Closed</p>	 <p>ATI Physical Therapy (KRG Capital Partners) KPMG Deal Advisory</p> <p>Financial pre-sale due diligence assistance on sale of ATI with over 500 clinic locations to Advent International</p> <p>Closed</p>	 <p>EyeCare Services Partners (Varsity Healthcare Partners) KPMG Deal Advisory</p> <p>Provided financial due diligence assistance on its sale to Harvest Partners</p> <p>Closed</p>

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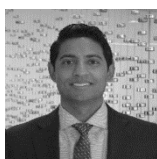
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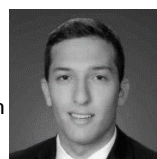
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2015-2019 global advisor ranking ⁽¹⁾		# of Deals
1.	KPMG*	2,462
2.	PwC	2,200
3.	Deloitte	1,631
4.	Rothschild & Co.	1,513
5.	Ernst & Young LLP	1,403
6.	Houlihan Lokey	1,275
7.	BDO	1,029
8.	IMAP	957
9.	Lazard	935
10.	Industrial & Comm. Bank China	916

2010-2019 global advisor ranking ⁽¹⁾		# of Deals
1.	KPMG*	4,321
2.	PwC	4,135
3.	Deloitte	2,827
4.	Ernst & Young LLP	2,654
5.	Rothschild & Co.	2,552
6.	Houlihan Lokey	2,347
7.	BDO	1,883
8.	Lazard	1,859
9.	Goldman Sachs & Co	1,813
10.	Morgan Stanley	1,685

Global coverage. Industry knowledge. Middle-Market focus.

The global Corporate Finance practices of KPMG International's network of independent member firms was ranked #1 as the top M&A middle-market adviser globally by Refinitiv based on number of completed transactions, for 2010 to 2019.

KPMG Corporate Finance LLC was recently named Transaction Advisory Firm of the Year by The Global M&A Network, and previously named investment Bank of the Year by the M&A Advisor. KPMG Corporate Finance LLC provides a broad range of investment banking and advisory services to its domestic and international clients. Our professionals have the experience and depth of knowledge to advise clients on global mergers and acquisitions, sales and divestitures, buyouts, financings, debt restructurings, equity recapitalizations, infrastructure project finance, capital advisory, portfolio solutions, fairness opinions, and other advisory needs.

Note:

⁽¹⁾ League tables include completed deals which have value between \$0 million to \$500 million and also where deal value is not disclosed, as on October 23, 2019.

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