



KPMG Corporate Finance LLC

Neurology physician practice M&A

February 2020

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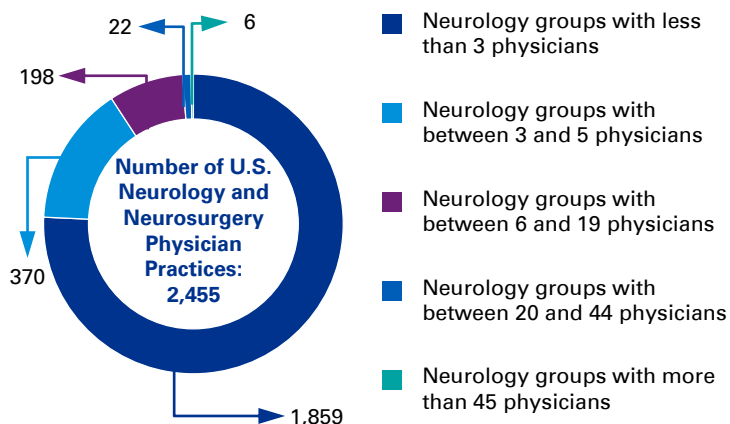


U.S. neurology market overview

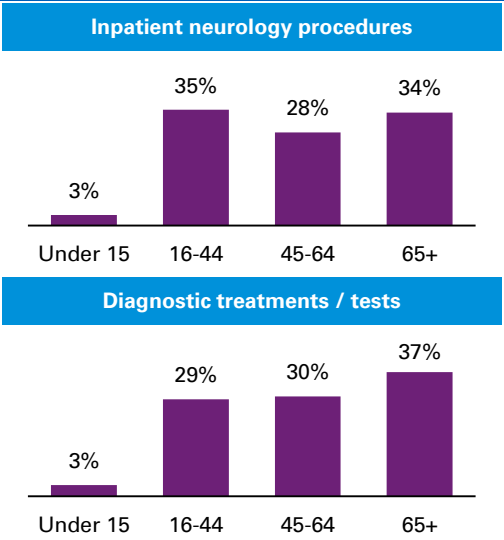
Strong sector tailwinds and expansion dynamics present major growth opportunity for neurology practices in the U.S.

- Neurological diseases impact an estimated 100 million Americans every year and the annual spending on common neurological disorders is estimated to be around \$800 billion.⁽¹⁾
- Neuro-related diseases are a significant concern for health systems.
- Major factors driving the procedural volume growth within neurosurgery and neurology include aging population and increasing prevalence of obesity.
- Neurological disorders disproportionately affect older adults, who are more prone to various central nervous system disorders.
 - An estimated 5.6 million of the 5.8 million Americans with Alzheimer’s are 65 years of age or older.⁽²⁾
 - The number of adults 65 and older is projected to nearly double from 55 million in 2019 to 88 million by 2050.⁽²⁾
 - The aging population is expected to increase the demand for neurology procedures.
- Currently there are approximately 16,400 neurologists in the U.S., a deficit of 11%⁽³⁾. With demand for services expected to increase, supply is increasing at a much slower rate.
- Coupled with favorable macro tailwinds, neurosurgeons, on average, are more profitable than other physicians.
 - Neurosurgery is one of the highest paying specialties with an average salary of \$687,000 per year.⁽⁴⁾
 - Neurosurgery and neurology physicians generate 5.0x and 6.8x, respectively, of their salary for their affiliated hospitals.⁽⁴⁾

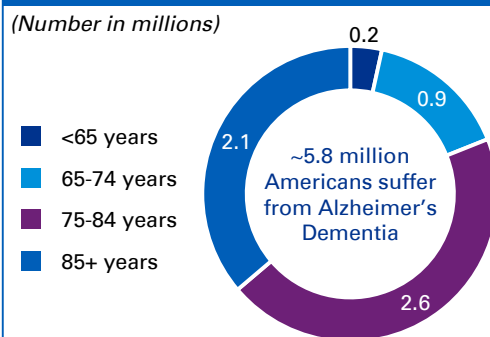
Highly fragmented U.S. neurology practice market⁽⁵⁾



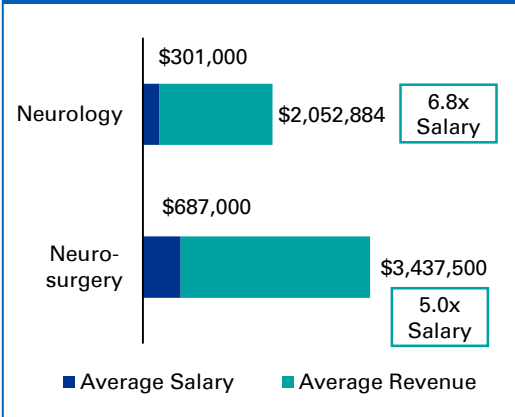
Procedures by age⁽¹⁾



People with Alzheimer’s disease in 2019⁽²⁾



Physician generated revenue vs average salary⁽⁴⁾



Sources:

- ⁽¹⁾ Merritt Hawkings - White paper on neurology
- ⁽²⁾ Alzheimer’s Association - 2019 Alzheimer’s Disease Facts and Figures
- ⁽³⁾ American Academy of Neurology
- ⁽⁴⁾ Merritt Hawkings - Revenue Survey
- ⁽⁵⁾ Practices with main specialty of neurology and neurosurgery per Definitive Healthcare

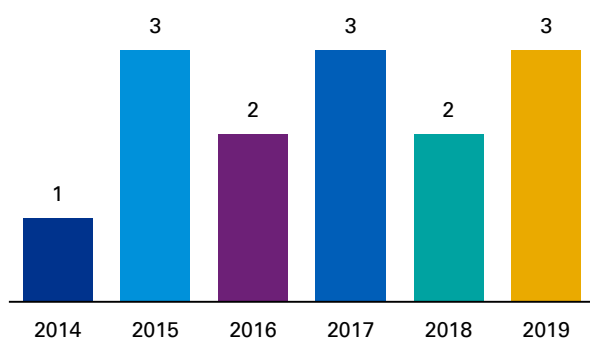
Neurology physician practice M&A activity overview

The highly fragmented U.S. neurology physician practice market dominated by groups with less than 3 physicians creates attractive dynamics for consolidation

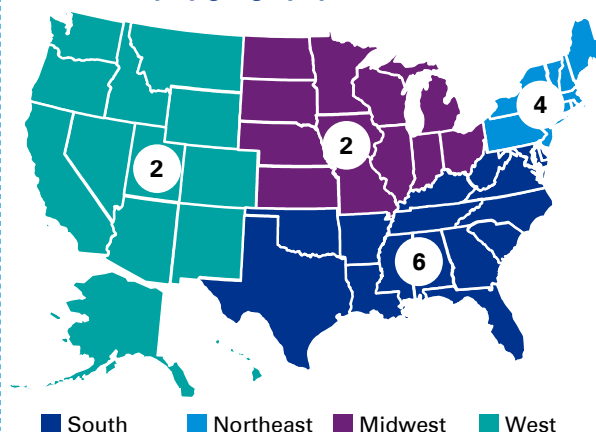
- The neurology physician practice market in the U.S. is largely unconsolidated and has been relatively untouched by outside investments.
 - There are over 2,400 neurology and neurosurgery physician practices in the U.S. and over 90% of these practices are comprised of five or fewer physicians.⁽¹⁾
- In the past, acquisition activity in hospital-based specialties has been slower as compared to activity in the free-standing practices space.
- Fueled by the opportunities for diverse revenue streams, increasing outpatient surgical volume, aging American population, and growing importance of neuroscience services to healthcare, M&A activity in the neurology space is likely to accelerate.
 - Government reforms such as the shift from fee-based model to outcome-based model are motivating businesses to consolidate in order to achieve size and scale and remain viable in the market.
 - Private equity investments are also becoming an attractive alternative to strategic acquirers as they present an opportunity to leverage a financial firm’s capital resources, allow physicians to maintain clinical autonomy and experience long-term equity appreciation.

Neurology physician practice M&A activity⁽²⁾

Deal activity since 2014








Deal activity by geography since 2014



Sources:

⁽²⁾ Capital IQ, Press releases, Irving Lewin.

Key factors driving consolidation activity in the sector

 <p>Fragmented market</p>	 <p>Broaden customer base</p>	 <p>Diverse revenue streams</p>	 <p>Favourable macro trends</p>	 <p>Centralizing back office functions</p>
<p>The sector is highly fragmented and is largely served by smaller private practices, presenting an opportunity to embark roll-up strategy.</p>	<p>By acquiring neurology physician practices throughout the country, investors can increase their revenue sources and gain access to a wider customer pool.</p>	<p>Providing multiple specialties and maintaining multiple sources of revenue, makes the organizations more attractive for potential buyers.</p>	<p>Rising prevalence of neurology related conditions and high profitability of the specialty fuel the interest of buyers in the sector.</p>	<p>Combining back office functions including billing, management, in-office services, etc. helps achieve economies of scale and gaining contract negotiation leverage.</p>

Sources: ⁽¹⁾ Practices with main specialty of neurology and neurosurgery per Definitive Healthcare
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Selected precedent neurology M&A transactions

Closed Date	Target Name	Target Location	Acquirer Name	Deal Value (\$ mm)
Nov-19	Neuro-Pro Monitoring	TX	Assure Holdings	\$7.0
Jul-19	Orthopaedic & Neurosurgery Specialists	CT	Kohlberg & Company	Undisclosed
Apr-19	Neuro Network Partners	FL	First Choice Neurology	Undisclosed
Oct-18	The Center for Neurological and Neurodevelopmental Health II	NJ	Council Capital	Undisclosed
Oct-18	Atlantic Neurosurgical Specialists	NJ	Lorient Capital	Undisclosed
Dec-17	Neurological Associates of Saint Paul	MN	Fairview Health Services	Undisclosed
Jul-17	Upstate Spine & Neurosurgery Center	SC	Orthopaedic Associates	Undisclosed
Apr-17	Southeastern Spine Institute	SC	Candescent Partners	Undisclosed
Sep-16	Western Kentucky Orthopaedics and Neurosurgical Associates	KY	Gilbert, Barbee, Moore & Mcilvoy	Undisclosed
Feb-16	Central Ohio Neurological Surgeons	OH	Mount Carmel Health System	Undisclosed
Jun-15	Neurology Practice Clinic in Lewiston	ME	Mount St. Mary's Hospital & Health Center	Undisclosed
Jun-15	Central Wyoming Neurosurgery	WY	Casper Medical Center	Undisclosed
Apr-15	Chattanooga Neurosurgery and Spine	TN	The Chattanooga-Hamilton County Hospital Authority	Undisclosed
Oct-14	Arizona Neurological Institute	AZ	The CORE Institute	Undisclosed



Sources: *Capital IQ*, Press releases, Irving Lewin.

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Select recent KPMG Corporate Finance LLC transactions

KPMG

Project Lion

A gastroenterology physician practice

Ongoing

KPMG

Project Spring

A gastroenterology physician practice

Ongoing

KPMG

Project Wave

An anesthesia physician group

Ongoing

KPMG



Has been acquired by



Closed

KPMG

Deer Meadows
Retirement Community

Has been acquired by

investment360^o

Closed

KPMG



Has been acquired by



A portfolio company of

ALTARIS



Closed

KPMG



Has been recapitalized by

BROWN BROTHERS HARRIMAN

Closed

KPMG



Has been acquired by



Closed

KPMG



Has received growth investment from



Closed

KPMG



Has been acquired by



Closed

Select recent KPMG LLP Deal Advisory credentials

KPMG

Compassion-First Pet hospitals (Quad – C)
KPMG Deal Advisory

Sell-side financial due diligence assistance on its sale to JAB

Closed

KPMG

Heartland Dental (Ontario Teachers Pension Plan Board)
KPMG Deal Advisory

Sell-side financial due diligence assistance on its sale to KKR

Closed

KPMG

DentalCorp
KPMG Deal Advisory

Sell-side financial due diligence assistance on its sale to L Catterton

Closed

KPMG

Private equity client
KPMG Deal Advisory

Sell-side financial due diligence assistance on its potential sale of women's health mammography company

Closed

KPMG

Audax Private Equity – Advanced Dermatology
KPMG Deal Advisory

Sell-side financial due diligence assistance on Advanced Dermatology's sale to Harvest Partners

Closed

KPMG

Great Point Partners- Professional PT
KPMG Deal Advisory

Sell-side financial due diligence assistance on sale of Professional PT to Thomas H. Lee Partners

Closed

KPMG

Center for Diagnostic Imaging
KPMG Deal Advisory

Financial due diligence assistance on sale to Wellspring Capital

Closed

KPMG

Forefront Dermatology (Varsity Healthcare Partners)
KPMG Deal Advisory

Sell-side financial due diligence assistance on its sale to Ontario Municipal Employees Retirement System(OMERS)

Closed

KPMG

ATI Physical Therapy (KRG Capital Partners)
KPMG Deal Advisory

Financial pre-sale due diligence assistance on sale of ATI with over 500 clinic locations to Advent International

Closed

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EyeCare Services Partners (Varsity Healthcare Partners)
KPMG Deal Advisory

Provided financial due diligence assistance on its sale to Harvest Partners

Closed

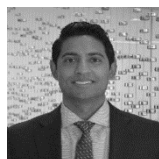
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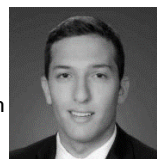
KPMG Corporate Finance LLC healthcare investment banking team



Walter J. Olshanski
**Managing Director,
 Sector Lead**
 T: 646-874-4878
 E: wolshanski@kpmg.com



Ankit Bavishi
Vice President
 T: 312-665-2026
 E: ankitbavishi@kpmg.com



Michael Cordaro
Associate
 T: 212-763-5408
 E: mcordaro@kpmg.com



Jason Moran
Managing Director
 T: 415-963-7353
 E: jasonmoran@kpmg.com



Karan Jolly
Managing Director
 T: 312-665-2949
 E: kjolly@kpmg.com



Amanda Dydynski
Vice President
 T: 415-963-8401
 E: adydynski@kpmg.com

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.

*Represents the global Corporate Finance practice of KPMG International's network of independent member firms



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