



KPMG Corporate Finance LLC

Neurology physician practice M&A

February 2020

kpmgcorporatefinance.com

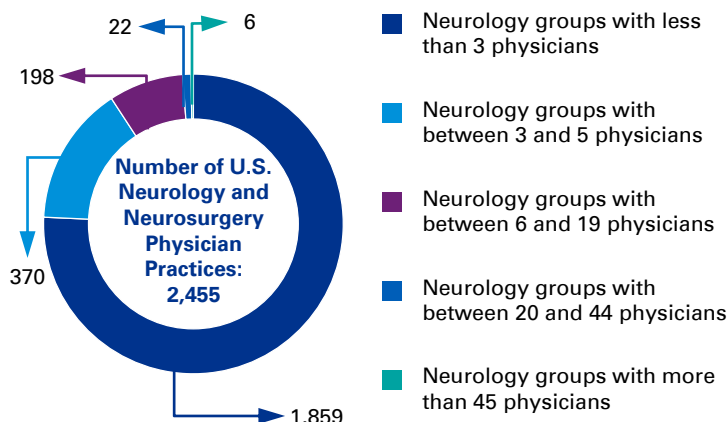


U.S. neurology market overview

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

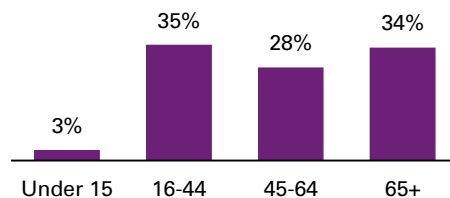
- Neurological diseases impact an estimated 100 million Americans every year and the annual spending on common neurological disorders is estimated to be around \$800 billion.⁽¹⁾
- Neuro-related diseases are a significant concern for health systems.
- Major factors driving the procedural volume growth 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⁾

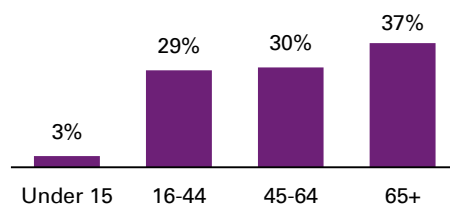


Procedures by age⁽¹⁾

Inpatient neurology procedures

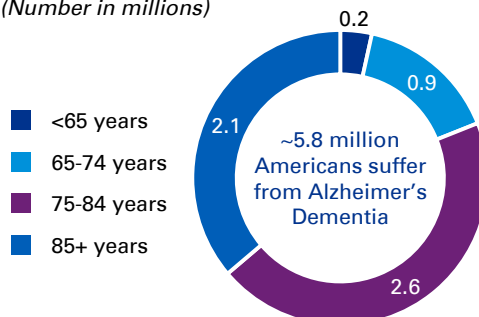


Diagnostic treatments / tests

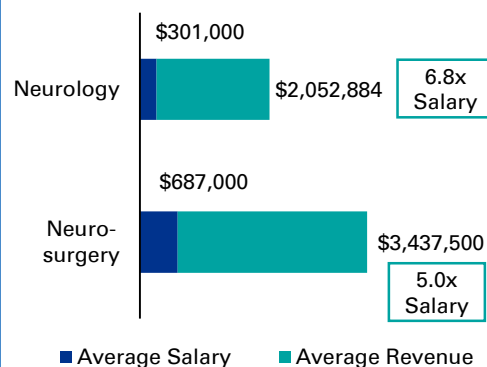


People with Alzheimer's disease in 2019⁽²⁾

(Number in millions)



Physician generated revenue vs average salary⁽⁴⁾



Sources:

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

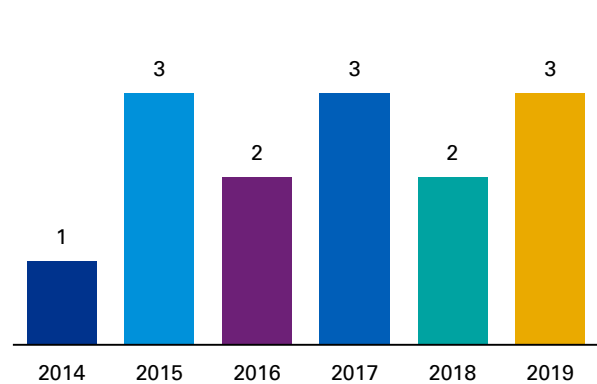
Neurology physician practice M&A activity overview

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.

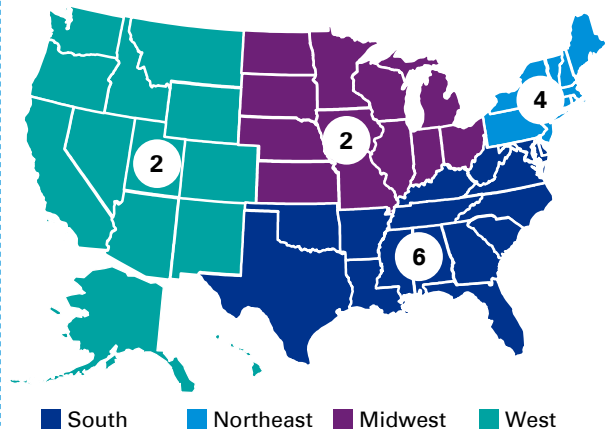
Neurology physician practice M&A activity⁽²⁾

Deal activity since 2014








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

Deal activity by geography since 2014



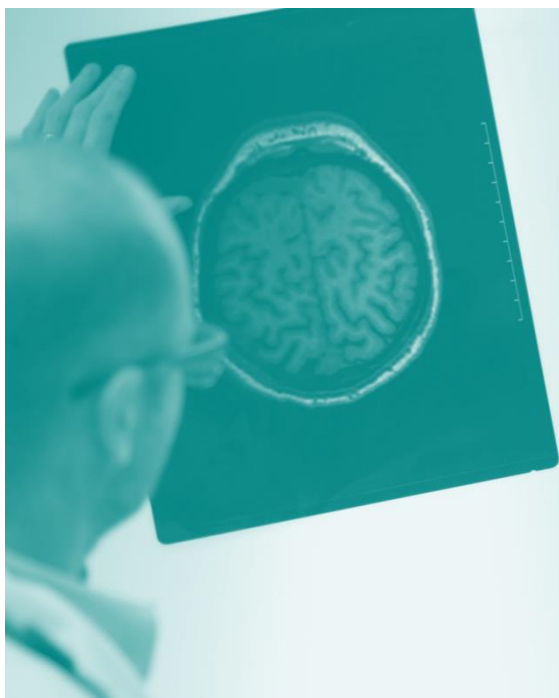
Key factors driving consolidation activity in the sector

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

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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KPMG Corporate Finance LLC

Select recent KPMG Corporate Finance LLC transactions

| | | | | |
|--|--|---|--|---|
|  <p>Project Lion</p> <p><i>A gastroenterology physician practice</i></p> <p>Ongoing</p> |  <p>Project Spring</p> <p><i>A gastroenterology physician practice</i></p> <p>Ongoing</p> |  <p>Project Wave</p> <p><i>An anesthesia physician group</i></p> <p>Ongoing</p> |   <p><i>Has been acquired by</i></p>  <p>Closed</p> |  <p><i>Deer Meadows</i> Retirement Community</p> <p><i>Has been acquired by</i></p>  <p>Closed</p> |
|   <p><i>Has been acquired by</i></p>  <p><i>A portfolio company of</i></p>   <p>Closed</p> |   <p><i>Has been recapitalized by</i></p>  <p>Closed</p> |   <p><i>Has been acquired by</i></p>  <p>Closed</p> |   <p><i>Has received growth investment from</i></p>  <p>Closed</p> |   <p><i>Has been acquired by</i></p>  <p>Closed</p> |

Select recent KPMG LLP Deal Advisory credentials

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

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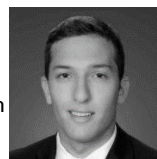
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| 2015-2019 global advisor ranking ⁽¹⁾ | | # of Deals |
|---|-------------------------------|------------|
| 1. | KPMG* | 2,462 |
| 2. | PwC | 2,200 |
| 3. | Deloitte | 1,631 |
| 4. | Rothschild & Co. | 1,513 |
| 5. | Ernst & Young LLP | 1,403 |
| 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 |

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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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