September 2023

Sector Update: Exploring the Evolving Competitive Landscape and Emerging Opportunities for Investment in Orthopedics

Livingstone

About the Author

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PRIOR EXPERIENCE
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- Joined Livingstone in 2021 as a Director in the firm's healthcare practice
- 12+ years of investment banking experience focused on sell-side M&A, buy-side M&A and capital raise transactions involving, founder-owned companies, private equity clients, and publicly traded companies
- Deep M&A healthcare advisory expertise in physician practice management ("PPM") across a range of sub-specialties, multi-site healthcare, pharmacy services, and tech-enabled services
  - PPM sub-sector experience includes anesthesia / pain management, emergency medicine, ENT / allergy, gastroenterology, orthopedics, podiatry, primary care, urology, vision, and women's health, among others
  - Advised on seven M&A engagements in the orthopedics sector
- Selected closed M&A advisory engagements in healthcare services include:
  - Merger of Weil Foot & Ankle Institute (a portfolio company of Stonehenge Partners and Aureus Capital Partners) on its merger with Balance Health (a portfolio company of an undisclosed private equity fund)
  - Sale of an undisclosed tech-enabled healthcare consulting services company to an undisclosed private equity fund
  - Sale of Pentec Health (a portfolio company of Norwest Equity Partners) to Wellspring Capital Management
  - Ambulatory Management Solutions on its growth capital partnership with VSS Capital Partners
  - Linden Capital Partners on the acquisition of Vital Care
  - HOPCo (a portfolio company of Frazier Healthcare Partners) on its growth partnership with Audax Group and Linden Capital Partners
  - Arizona Centers for Digestive Health on its growth partnership with Covenant Physician Partners (a portfolio company of KKR)
  - Kohlberg & Company on its growth capital partnership with Orthopaedic & Neurosurgery Specialists (d/b/a Spire Orthopedic Partners)
  - Anesthesia Associates of Ann Arbor and Midwest Anesthesia Consultants on their partnership with Prospect Hill Growth Partners
  - The Orthopaedic Institute on its growth capital partnership with Varsity Healthcare Partners
  - Divestiture of the healthcare software assets (d/b/a Cantata Health) of NTT Data

Note: selected transaction were completed while at prior firms

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I. Executive Summary

Executive Summary

Orthopedics and Physician Practice Management ("PPM") M&A Update	

Orthopedics and Physician Practice Management ("PPM") M&A Update

- Investor interest across PPM sub-specialties, including orthopedics, remains strong as M&A transaction volume has exploded since 2021, with the average number of transactions per quarter run-rating at levels 2x to 3x higher than pre-pandemic amounts (~150 transactions per quarter)
  - In 2023, PPM M&A transaction activity began to moderate, with the number of closed transactions up 4% year-over-year ("YoY") in H1'23. For comparison, H1'22 M&A transactions were up 27% YoY
  - M&A activity has been fueled by a combination of additional platform investments and add-on affiliations in consolidating sub-specialties (e.g., dermatology and ophthalmology, etc.), as well as new platform investments in emerging sub-specialties (e.g., ENT and cardiology, etc.)
- Orthopedics has continued to attract additional private equity investment and is benefiting from a confluence of macro tailwinds, which include:
  - The large annual spend on orthopedic care (~$250+ billion per year) combined with the accelerating demand for orthopedic care which is outpacing the forecasted growth in providers, creating a supply-demand imbalance and need for more efficient, scalable clinical models
  - The network of ~30,000 board-certified orthopedic surgeons remains highly fragmented, with 85%+ practicing in small, independent groups
  - Opportunity to invest in and develop the full complement of ancillary services required to improve the quality and availability of low-cost, coordinated care to patients
  - Orthopedics has been a particular pain point for payors and a specialty plagued by a wide variation in cost and clinical quality for the same procedure. Well-capitalized groups are positioned to benefit from the market trends, including (i) capturing volume as surgical procedures shift to lower cost outpatient care settings and (ii) investing in the technology / infrastructure and developing integrated clinical networks to support value-based care initiatives
- In orthopedics there are nearly 20 private equity backed platforms today, of which approximately half were completed within the past 24 months. The size and sophistication of the existing platforms vary depending on their stage of growth and investment lifecycle
  - Add-on acquisition activity has increased alongside the number of platforms while several of the older vintage platforms are expected to seek an exit transaction in the next 12 months, which would represent the first secondary M&A transactions in the sector
- Private equity interest in the sector remains high and it remains an opportune time for independent orthopedic practices to explore potential transaction alternatives

Healthcare M&A Update

- U.S. M&A transaction activity across all sectors has been negatively affected by a macroeconomic environment characterized by (i) elevated interest rates, which are at levels not seen in over 20 years, (ii) stubborn inflation, and (iii) concerns of a potential near-term recession
  - As of June 30, 2023 year-to-date ("YTD") aggregate transaction value and count of closed M&A transactions have declined 16% and 4%, respectively, YoY
  - The slowdown in M&A activity was more pronounced for (i) larger transactions (e.g., $500+ million of transaction value) and (ii) cyclical sectors
- U.S. healthcare services M&A activity has proven to be among the most resilient sectors with the YTD number of closed M&A transactions up 7% YoY, although the growth rate for closed transactions has moderated compared to previous years
  - In today's market, high quality assets that are financially performing continue to garner strong interest from potential buyers, while sellers are increasingly prioritizing speed and certainty over maximizing price
- While YTD M&A transaction activity in healthcare services has grown, private equity deal activity in the sector has moderated from the record levels observed in H2'22 and 2021, with six consecutive quarter-over-quarter ("QoQ") declines in the number of closed M&A transactions
  - In Q2'23 the number of closed deals was the lowest mark observed since Q2'20 (COVID-19 impacted) and is less than half of peak deal count in Q4'21
  - The popular strategy among private equity investors has been to extend the hold period for longer-tenured healthcare portfolio companies and, as a result YTD exit activity, has declined 60% YoY and 75% when compared to 2021

Executive Summary *(continued)*

Private Equity Update

- M&A activity among private equity investors has been impacted by the turbulent debt capital market conditions and an elevated interest rate environment, which have pressured the financial performance of both existing portfolio companies and prospective new platform investments
  - Current market conditions, for the most part, have not lowered sellers' value expectations; however, buyers are being more selective and focusing on (i) high quality assets in more resilient sub-sectors, (ii) value accretive add-on acquisitions for existing portfolio companies, and (iii) take-private transactions
  - While the cost of capital has increased dramatically, disciplined financial sponsors have historically demonstrated an ability to successfully operate in higher-rate environments
- The slowdown in exit transactions is evident across sectors with many financial sponsors delaying sale processes to avoid monetizing assets at potentially less desirable returns
  - Over the past decade, ~60% of the value creation in private equity investments has resulted from multiple expansion (e.g., achieving a higher valuation multiple at exit) and ~40% from revenue growth and EBITDA margin expansion of the underlying portfolio company
  - The private equity model does not allow for indefinite patience, and some sponsors may wait another six to 12 months for market conditions to improve and for portfolio companies to grow before reassessing value expectations and creative exit alternatives to maximize value to shareholders
- The tempered levels of exit transactions have contributed to a more challenging fundraising environment for private equity funds than in years past with many limited partners encountering liquidity constraints and therefore are being more selective with new capital commitments in 2023
- Private equity, as an asset class, continues to have a near record level of dry powder (~$900 billion as of 2022 calendar year end), which is capital that has been committed by limited partners but not called for specific investments
  - General partners are eager to put to this capital to work for new platform investments

Debt Capital Markets Update

- The syndicated loan markets demonstrated signs of stress beginning in Q3'22, as higher interest rates pressured borrowers across sectors, forcing lenders to assess portfolio risk exposure. As a result, the market is thinner today than in years past
  - Since March 2022, the Fed Funds rate has been increased 11 times by a total of 500 basis points ("bps"), which has caused the average borrowing cost for buyout loans to more than double over that time period
  - While most companies are in good financial health, higher rates have contributed to a rising number of defaults, although default rates remain below historical averages
  - Issuers have begun to accept that higher rates are likely to sustain for some time, with many capitalizing on the more supportive market conditions in 2023 to launch new deals to either refinance or amend-and-extend existing loans nearing maturity
- After significant tightening over the past 18 months, most lenders expect for key terms including leverage and pricing to remain stable for the remainder of 2023
- Overall, the debt markets remain open with the current yield levels attracting new pockets of capital to the asset class, particularly from direct lenders. High-quality borrowers are encountering a higher cost of capital and less issuer friendly terms than in years past, while lower quality borrowers are finding the market less receptive

II. Orthopedics Sector Update

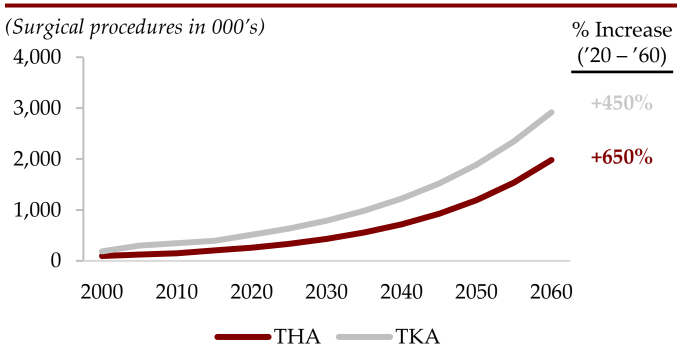
What Makes Orthopedics an Attractive Sector for Investment?

The orthopedic sector is a large and important medical specialty that is experiencing rapid growth in the demand for care combined with a shortage of physicians, resulting in an ever-rising need for more efficient platform models

Large, Growing Market Benefiting from Attractive Demographic Trends

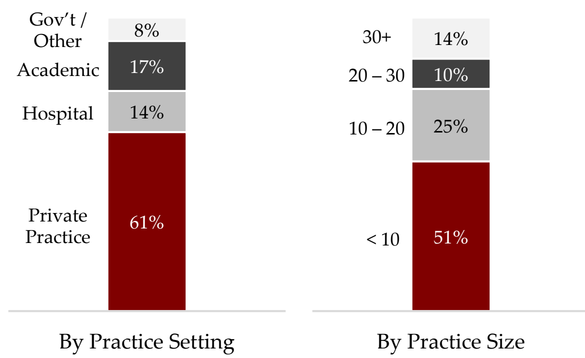
- $250 billion in direct annual spend, growing at high-single digits YoY
- 230+ million healthcare visits annually
- Aging population and active lifestyles driving increase in demand for musculoskeletal ("MSK") care
- Chronic conditions have become more common and require episodic care
- Shift to outpatient care delivery and lower-cost care settings
- Significant variation in the cost and utilization of MSK care across the U.S.
- Critical clinical specialty in the healthcare value chain

Rising Demand for MSK Surgical Procedures



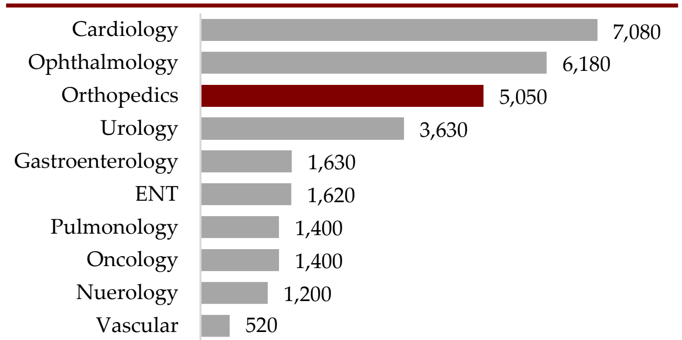
Highly-Fragmented and Inefficient Provider Networks

- Large number of MSK practices of varying size and sophistication
- Highly fragmented market with a limited number of scaled platforms (~85% practice in smaller groups)



- Demand for care is forecast to outpace growth in the physician base resulting in a supply-demand imbalance and the need for more efficient clinical models

Projected Physician Shortage by Specialty (2025)



Multi-Faceted Value Creation Opportunity for MSK Platforms

- Establish a large and sub-specialized physician network to share best practices and clinical insights
- Invest in ancillary services to enable physicians to manage the entire episode of care for each patient
- Operational, infrastructure, and administrative efficiency of the platform model
- Improved data systems to track clinical quality, patient outcomes, and cost savings to payors and health systems
- Better positioned for the shift from fee-for-service to value-based care
- Practices that can manage the entire episode of care offer a differentiated value proposition to patients, providers, and payors
- First mover advantage for well-capitalized platforms to accelerate growth through value-accretive acquisitions and future acqui-hires

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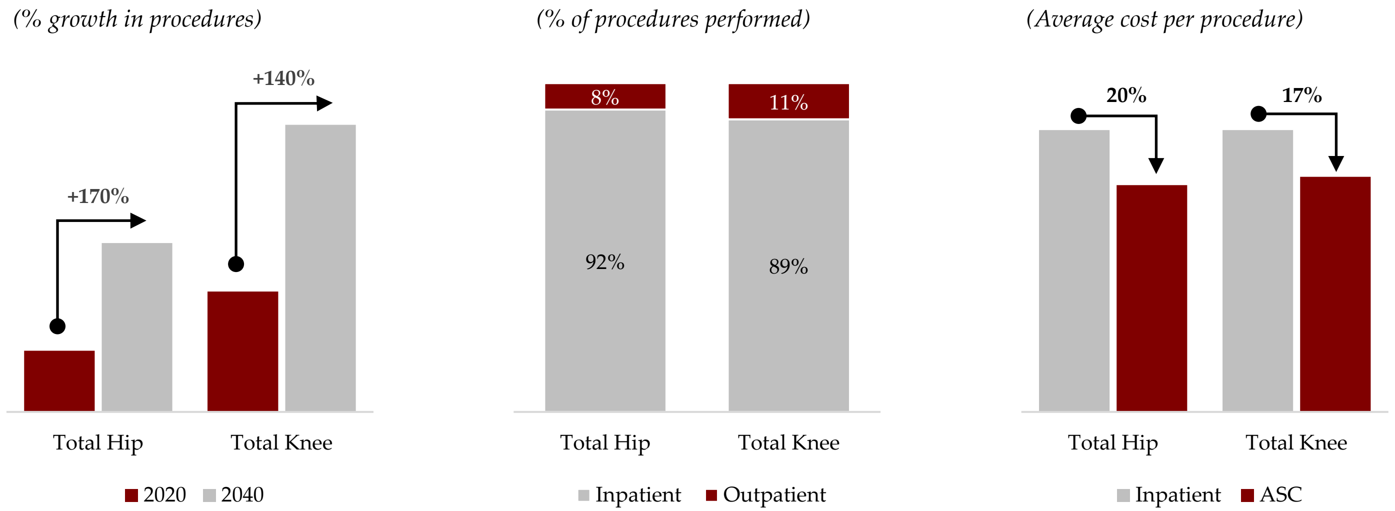
Source: American Academy of Orthopedic Surgeons, Merritt Hawkins, National Library of Medicine, American Board of Medical Specialties, and Livingstone proprietary insights

Key Sector Theme | Transition of MSK Surgical Procedures to ASCs

Based on 2020 case volume, completing half of all total hip and total knee replacements in an ASC would result in $2.4 billion of total savings to payors and patients and $12.5 billion of incremental revenue to ASC operators

- Substantial opportunity to drive cost out of the system by migrating primary total hip arthroplasty ("THA") and primary total knee arthroplasty ("TKA") surgical procedures from the hospital to lower cost ASCs
- While ~50% of all orthopedic surgeries are performed in an ASC today, only ~11% of TKA and ~8% of THA are completed in an outpatient setting
- CMS removed TKAs and THAs from the inpatient-only list in 2015 and 2020, respectively
- TKAs and THAs were added to the ASC-approved list in January 2020 and January 2021, respectively
- There is a significant revenue opportunity for physician-owned ASCs to capture the incremental demand in the near-term

Growing Demand for Knee and Hip Replacements Offers a Substantial Opportunity to Migrate More Expensive, Inpatient Procedures to the Outpatient Care Setting



Procedure Type	Incremental Outpatient Procedures (1)	Estimated Savings per Procedure	Implied Savings ($ in millions)	Incremental ASC Revenue ($ in millions)
Total Hip	130,000	$6,700	$871	$3,588
Total Knee	260,000	$5,700	$1,482	$8,918
Total	**390,000**		**$2,353**	**$12,506**

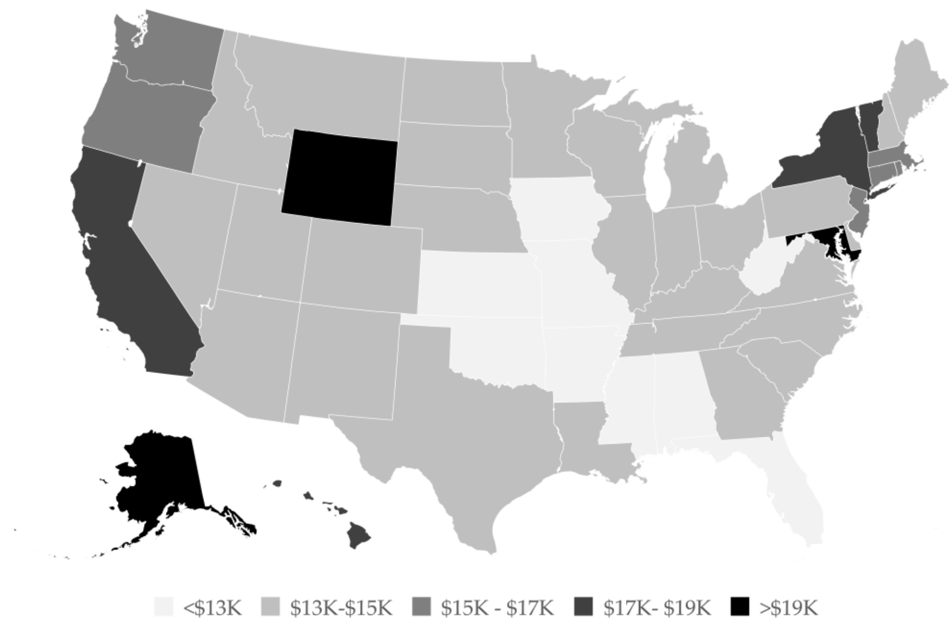
Source: National Library of Medicine, United Health Group, and Livingstone proprietary insight
(1) Analysis assumes 50% of all THA and TKA procedures are completed in an ASC. Procedures counts estimated based on data for 2020.

Key Sector Theme | Wide Cost Variation for Common MSK Procedures

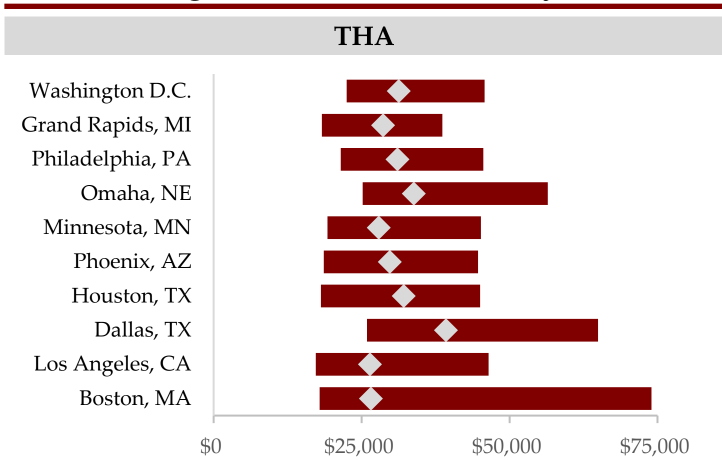
There is an emerging opportunity for alternative reimbursement arrangements in MSK and to achieve greater transparency for both cost and patient outcomes – an advantage to platforms with sophisticated infrastructure and the ability to manage clinically integrated networks

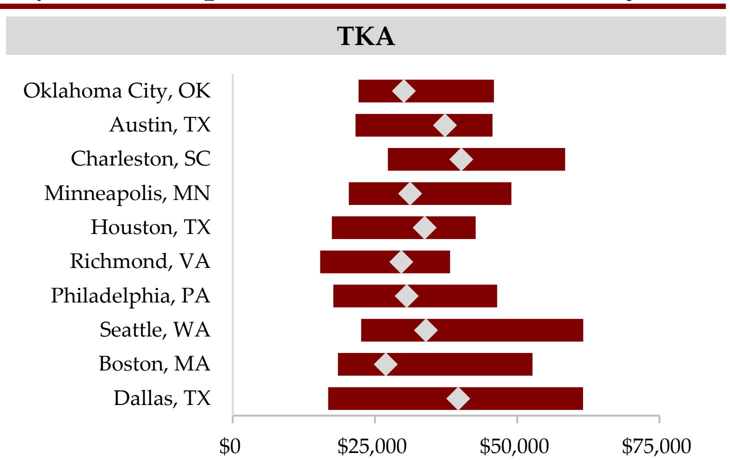
- The cost of MSK care varies considerably across the U.S. with average Medicare payments ranging from $21.1K in Alaska to $11.7K in Alabama for a lower extremity joint replacement without a major complication or comorbidity
- Of the major MSAs, Dallas, TX has the largest cost differential for TKAs ($44.8K or 267%) and Boston, MA has the largest cost differential for THAs ($56.1K or 313%)
- The same procedure can cost a drastically different amount in the same community
- Lack of price transparency and care standardization impact both payors and patients through higher premiums, in addition to co-insurance and deductibles
- Total spend for MSK represents more than 14% of overall healthcare spending – a major pain point for payors
- MSK is poised for the adoption of alternative reimbursement models, including full capitation, to reduce cost inefficiencies while improving patient outcomes, which favors larger, well capitalized platforms with sophisticated infrastructure and clinically integrated care networks

Average Medicare Payments by State (DRG 470 Major Joint Replacement of Lower Extremity)



Ten Largest Cost Differentials by MSA (DRG 470 Major Joint Replacement of Lower Extremity)





Cost Range (Low to High) Average Cost

Source: CMS, Medicarehelp.org, Blue Cross Blue Shield, and Livingstone proprietary insight

Overview of Platform Dynamics in the Orthopedics Sector

Currently there are nearly 20 private equity backed platforms in the orthopedics sector, which vary in terms of scale, diversification, stage of growth, and investment lifecycle

Platforms by Stage of Growth

Larger-Sized Platforms
(100+ physicians)

- Continued focus on sourcing, executing, and integrating add-on acquisitions
- Execute growth strategy for add-on acquisitions (e.g., ancillary services, de novo ASCs, new provider recruitment, hospital partnerships, etc.)
- Successful expansion to multiple states with density and economics of scale in key markets
- Independent practices in this category are generally comprised of multiple groups within a specific region, and are not always integrated

Medium-Sized Platforms
(30 to 100 physicians)

- Independent practices typically achieve this level of scale through mergers to mutually benefit from shared ancillary services and improved payor contracting
- Private equity-backed platforms typically have more robust infrastructure and management teams
- More sophisticated practices will deploy the same IT systems across all locations
- Focus on building M&A pipeline in existing markets and priority markets for expansion
- Completed a handful of add-on acquisitions

Initial Platforms
(10 to 30 physicians)

- The most common entry point for new platform investments
- Typically, a leading practice in a single market or key MSA
- Integrated clinical model with sub-specialized physicians, ancillary services and ASCs
- Often requires investment in infrastructure and management team to scale the company
- No historical M&A

Private Equity Backed Platforms

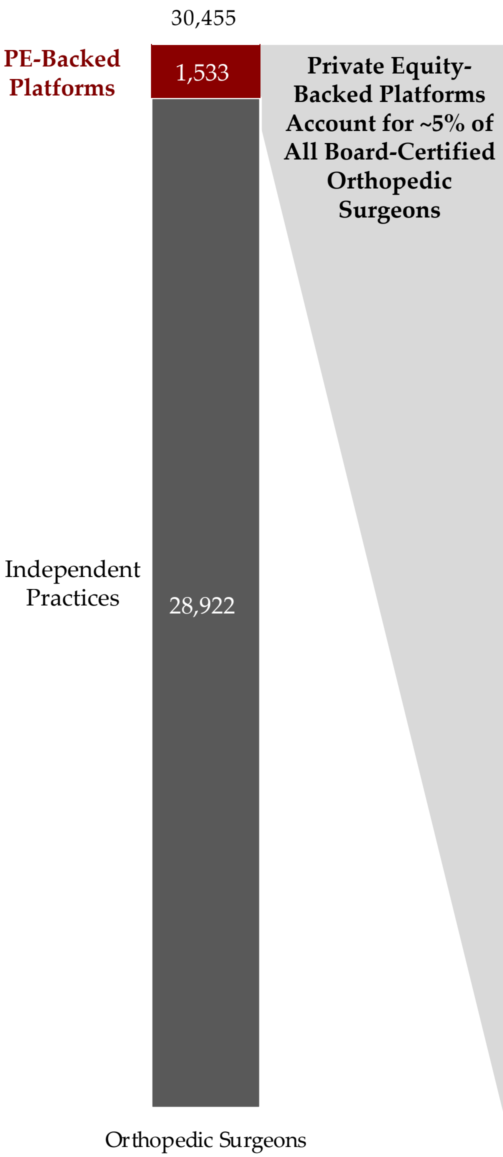
Contact Livingstone for Additional Details

Selected Independent Practices

Highly Fragmented Sector in the Early Stages of Consolidation

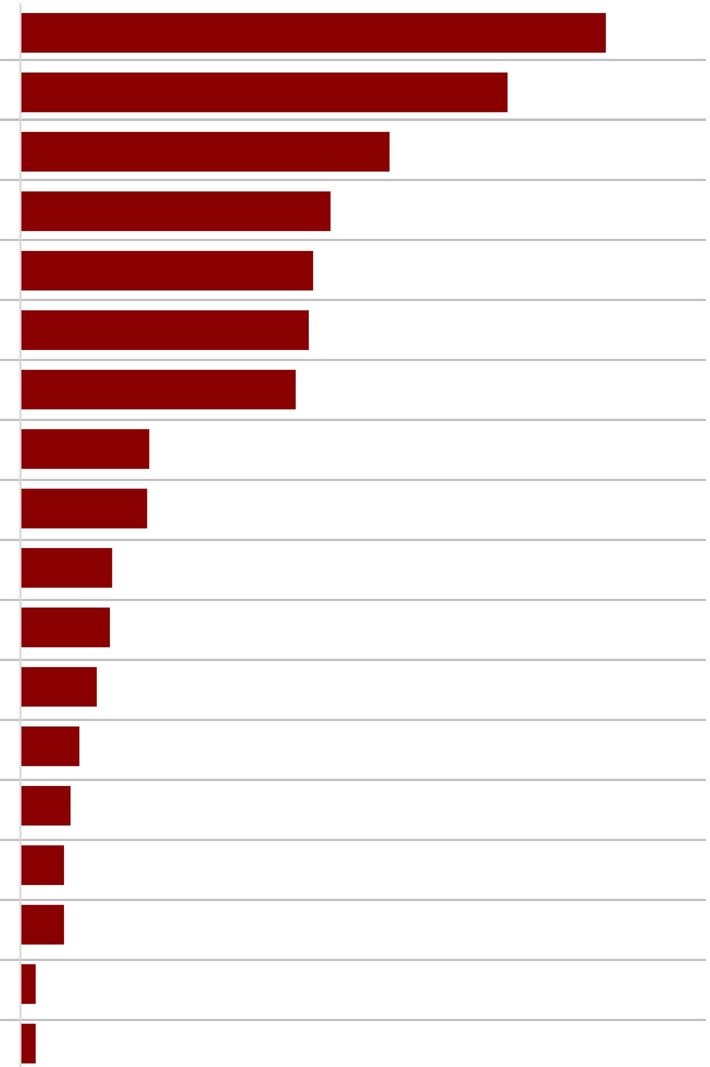
Relative to other PPM sub-specialties, the orthopedics sector is highly fragmented with many small independent provider groups, a limited number of platforms of significant scale, and ample whitespace for continued consolidation and investment

Fragmented Landscape



Overview of Current Private Equity-Backed Orthopedics Platforms

#	Investment Year	Platform	Private Equity Fund(s)	# of Physicians
1	2019			
2	2021			
3	2019			
4	2019			
5	2020			
6	2017			
7	2019			
8	2019			
9	2018			
10	2021			
11	2021			
12	2023			
13	2021			
14	2021			
15	2020			
16	2020			
17	2021			
18	2022			



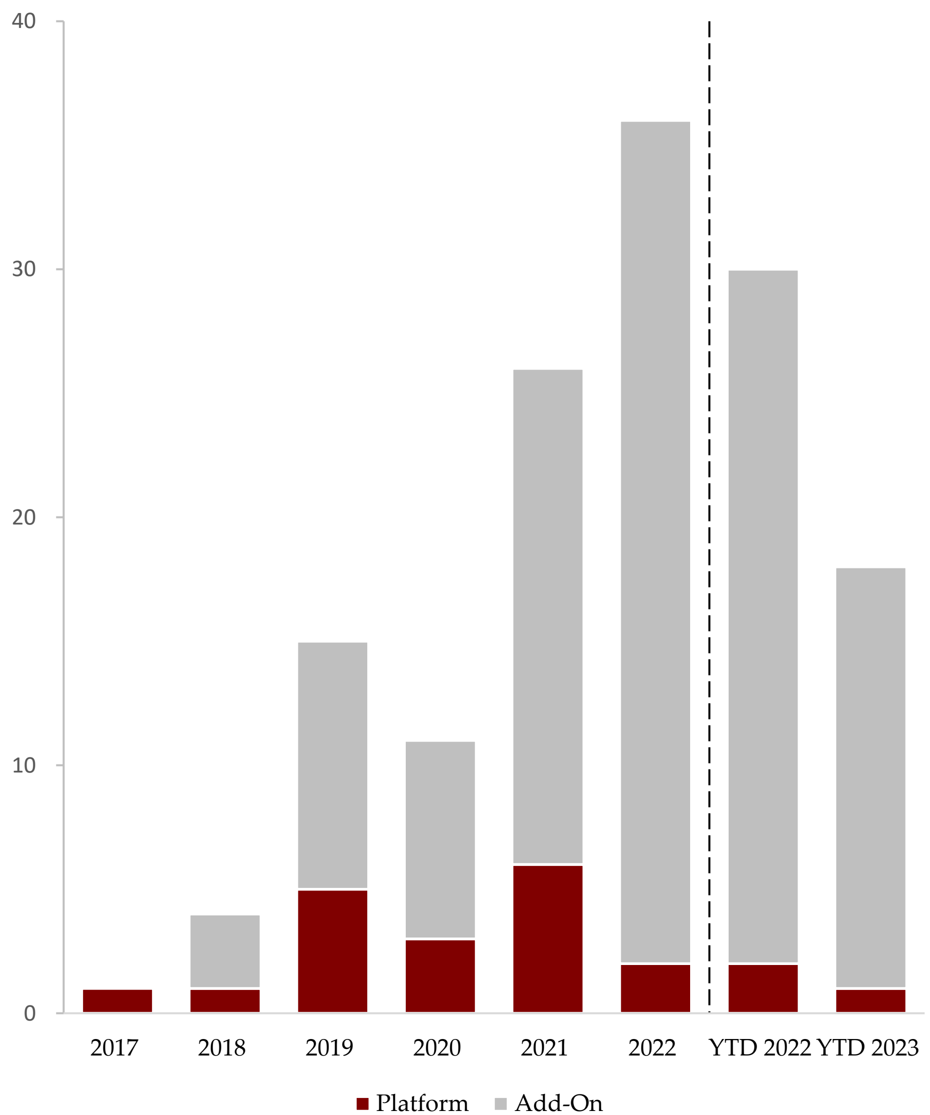
Contact Livingstone for Additional Details

Source: American Board of Medical Specialties, company websites, and Livingstone proprietary insights

Summary of Recent M&A Activity in the Orthopedics Sector

Since the first platform investment in 2017, M&A activity in orthopedics has continued to increase YoY, aside from 2020 which was impacted by COVID. M&A activity in 2023 has moderated as several platforms are expected to pursue an exit transaction in the next 12 months, while newer platforms are focused on building corporate infrastructure and establishing M&A capabilities

M&A Transactions by Year (Since 2017)



Selected Recent M&A Transactions (2023)

Date	Target	Acquiror	Type
Aug-23	OrthoNebraska	InTandem Capital Partners	Platform
Aug-23	Somers Orthopaedic Surgery & Sports Medicine Group	Health Plus Management	Add-On
Jul-23	Orthopaedic Associates of New Orleans	US Orthopedic Partners	Add-On
Jul-23	Mid State Orthopaedic & Sports Medicine Center	US Orthopedic Partners	Add-On
Jun-23	American Spine & Orthopaedic Institute	Orthopedic Care Partners	Add-On
May-23	Tallahassee Orthopedic Clinic	Orthopaedic Solutions Management	Add-On
May-23	Advanced Pain Medical Center	Orthopedic Care Partners	Add-On
Apr-23	Midwest Center for Joint Replacement	OrthoAlliance	Add-On
Mar-23	Precision Orthopaedic Specialties	OrthoAlliance	Add-On
Mar-23	Orthopedic Associates	United Musculoskeletal Partners	Add-On
Mar-23	Advanced Orthopedics and Sports Medicine Institute	Health Plus Management	Add-On
Feb-23	South Bend Orthopaedics	OrthoAlliance	Add-On
Feb-23	Orthopedic and Spine Centers of Wisconsin	HOPCo	Add-On
Feb-23	All-Star Orthopedics	United Musculoskeletal Partners	Add-On
Feb-23	OrthoTexas Physicians and Surgeons	United Musculoskeletal Partners	Add-On

Source: Company websites, Livingstone research, and proprietary insights

Overview of Private Equity-Backed Orthopedic Platforms

Company Overview	Clinical Footprint	Selected Practice Acquisitions

Contact Livingstone for Additional Details

Source: Company websites, Livingstone research, and proprietary insights

Overview of Private Equity-Backed Orthopedic Platforms *(continued)*

Company Overview	Clinical Footprint	Selected Practice Acquisitions

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Overview of Private Equity-Backed Orthopedic Platforms *(continued)*

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Source: Company websites, Livingstone research, and proprietary insights

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III. Healthcare M&A Market Update

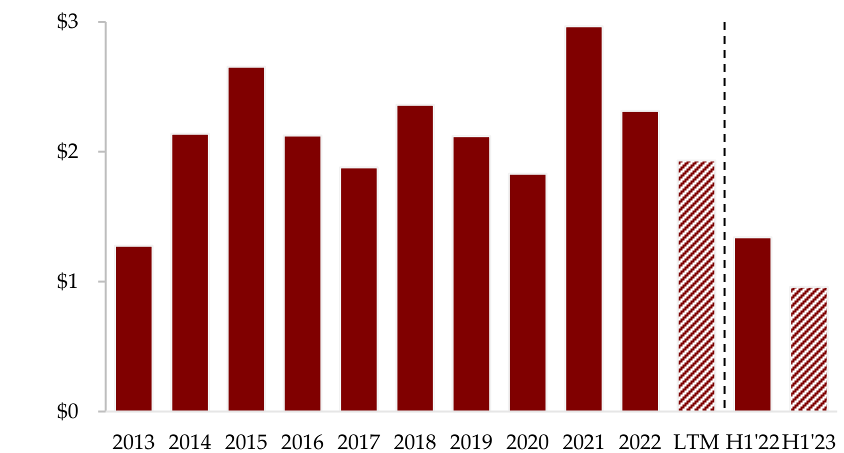
U.S. M&A Transaction Trends (All Sectors)

- After achieving a new high-water mark in 2021 with $2.9 trillion in aggregate transaction value and ~20,000 closed M&A transactions, U.S. deal activity across all sectors moderated in both 2022 and YTD June 2023
- As in past economic cycles, M&A becomes temporarily less attractive when the cost of capital (dramatically and quickly) increases while valuation multiples remain high
- During the twelve-months ended June 30, 2023, there were ~18,100 closed M&A transactions in the U.S. that accounted for $1.9 trillion in aggregate transaction value, which represented a decline of 3.7% and 16.5%, respectively, from 2022 levels
- Through YTD June 2023, aggregate deal volume and value declined YoY by 7.3% and 28.5%, respectively, although quarterly transaction activity has remained relatively stable since the Fed Funds rate started to increase in Q2’22. Interest rates are currently at a 22-year high

By Year (2013 – LTM June 2023)

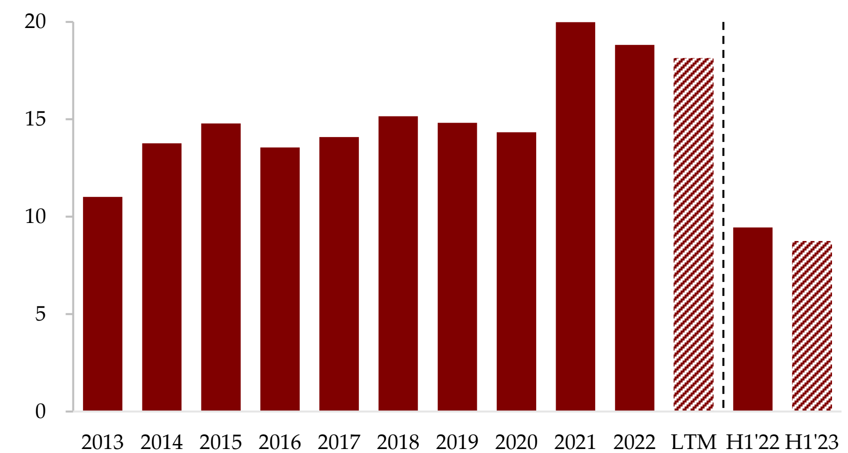
U.S. M&A Aggregate Transaction Value

($ in trillions)



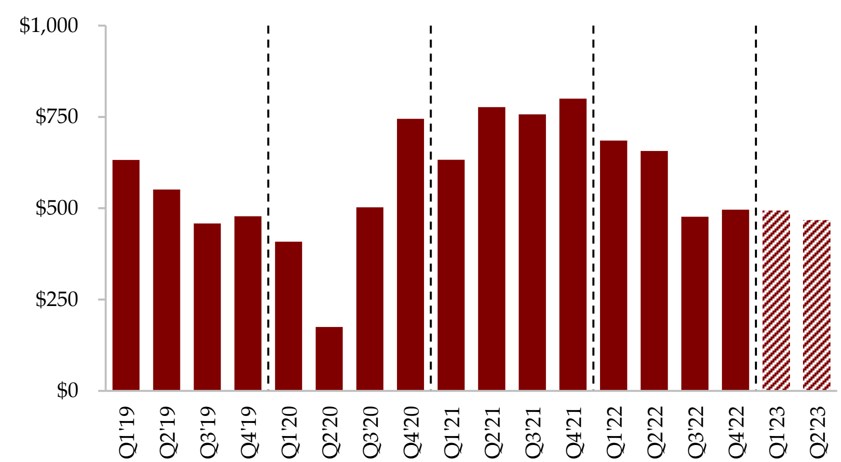
U.S. M&A Aggregate Transaction Count

(# of transactions in 000’s)

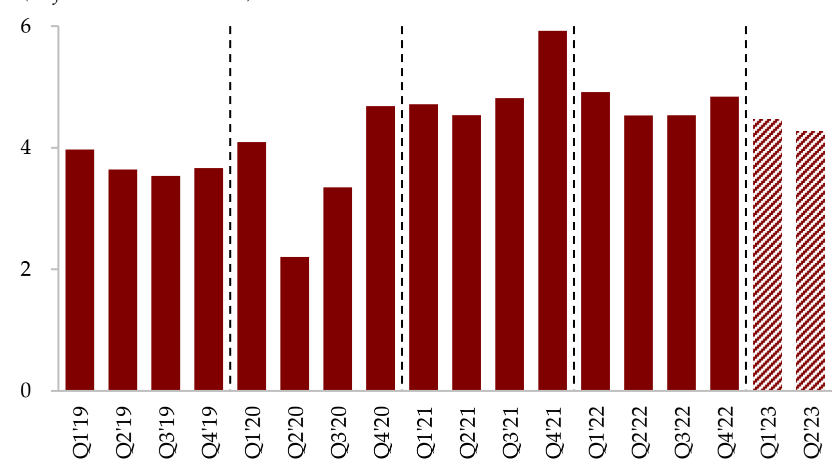


By Quarter (Q1’19 – Q2’23)

($ in billions)



(# of transactions in 000’s)



Note: Transaction data as of June 30, 2023
Source: Pitchbook, Wall Street research, and Livingstone proprietary insights

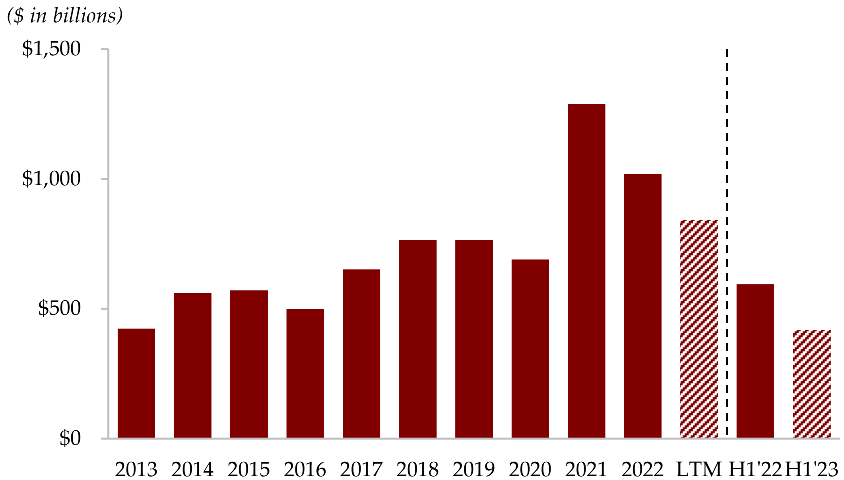
U.S. Private Equity Transaction Trends (All Sectors)

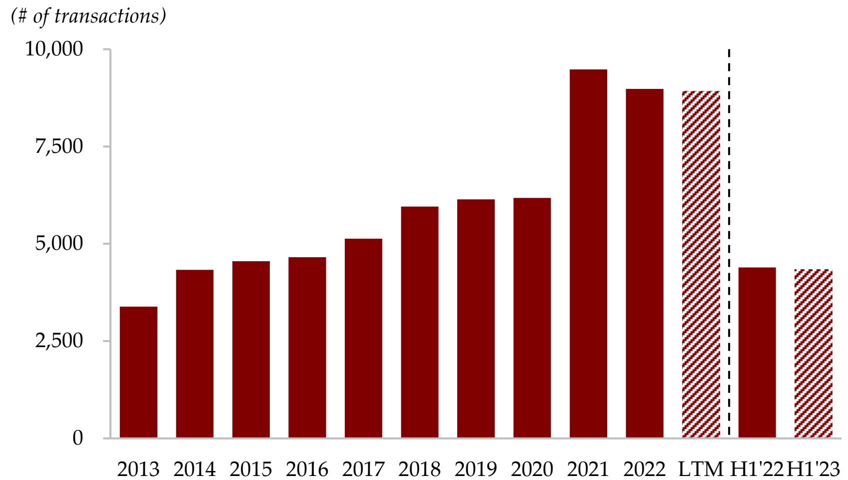
- The macroeconomic conditions have also impacted transaction activity among private equity funds, although transaction value has been more impacted than deal volume which suggests a shift towards smaller transactions and add-on acquisitions for existing portfolio companies
- During the twelve-months ended June 30, 2023, there were ~9,000 closed M&A transactions in the U.S. involving private equity funds that accounted for $840 billion in aggregate transaction value, which represented a decline of 0.6% and 17.3%, respectively from 2022 levels
- Through H1'23, the aggregate deal volume and value among private equity investors declined YoY by 1.2% and 29.6%, respectively. Since Q3'22, private equity transaction activity has stabilized at levels lower than those observed in 2021 and H1'22 as the rising cost and more limited availability of debt capital weighs on both deal activity and potential investor returns

U.S. Private Equity Aggregate Transaction Value

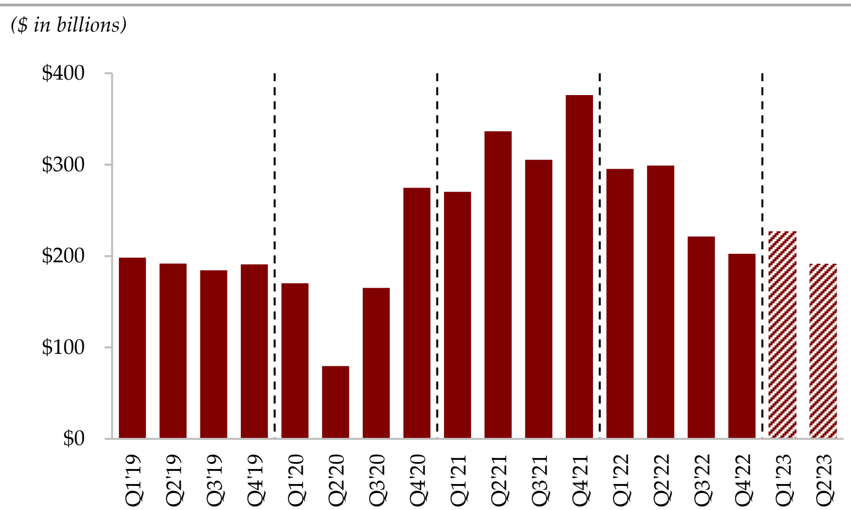
U.S. Private Equity Aggregate Transaction Count

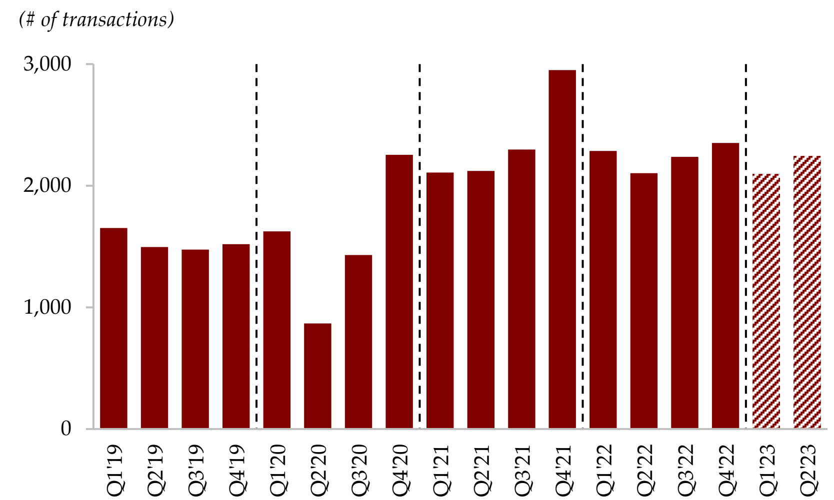
By Year (2013 – LTM June 2023)





By Quarter (Q1'19 – Q2'23)



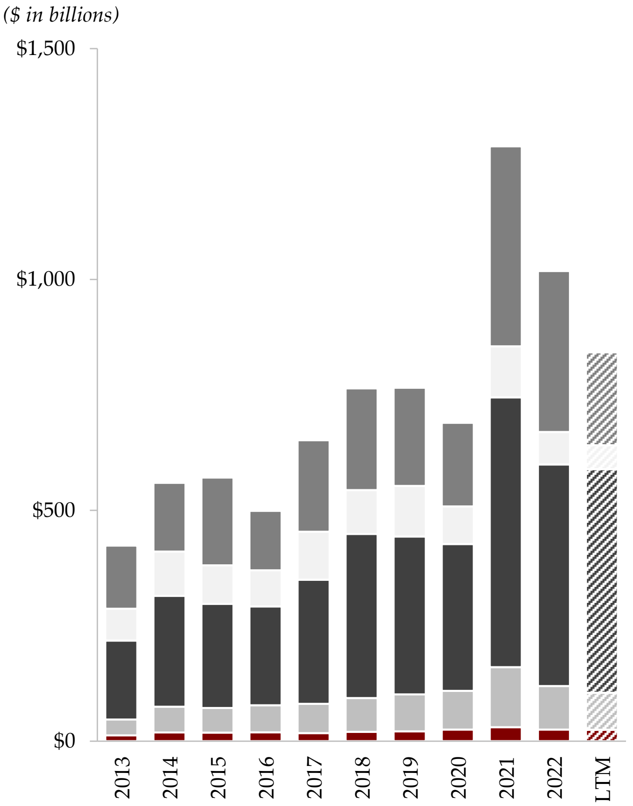


Note: Transaction data as of June 30, 2023
Source: Pitchbook, Wall Street research, and Livingstone proprietary insights

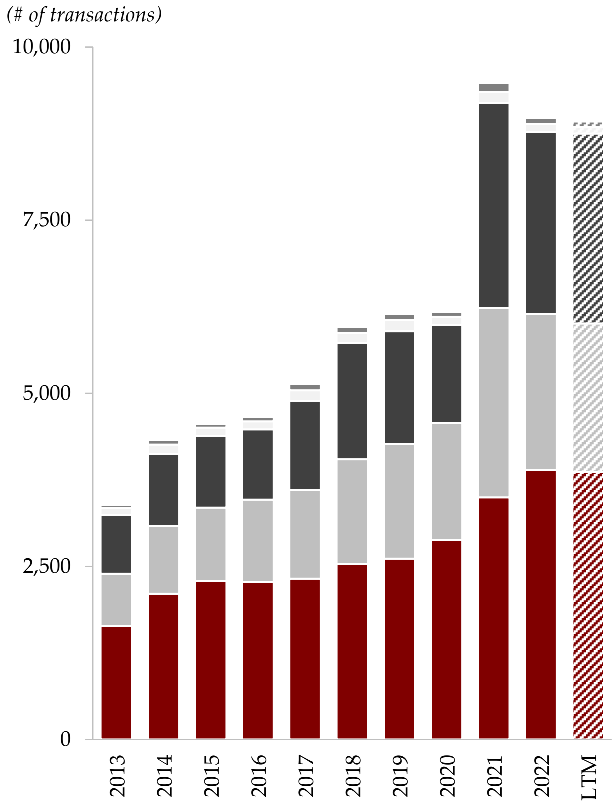
U.S. Private Equity Transaction Trends by Size and Type

- Relative to prior years, there has been a decline in larger M&A transactions (e.g., $500+ million of transaction value) in H1'23, in part due to the slowdown in the syndicated lending markets which began in Q3'22
  - Compared to 2021 and 2022, transaction volume in this size range for the twelve-month period ending June 30, 2023, declined by 39.6% and 13.9%, respectively
- Middle market M&A activity (e.g., $25 million to $500 million of transaction value) has remained more resilient. Compared to 2021, transaction volume in this size range for the twelve-month period ended June 30, 2023 decreased by 14.2% and was flat relative to 2022 transaction volume
  - Data suggests the average size of a middle market M&A transaction for the twelve-months ended June 30, 2023 declined by 16.8% relative to 2022 and by 30.6% relative to 2021
  - Add-on acquisitions continue to account for most private equity transactions and represent a common value creation lever among private equity-backed platforms
  - In order to deploy capital in the current market, some private equity funds have adopted new strategies by investing "down market" in size and/or over-equitizing new platform investments, with the goal of recapitalizing those assets when market conditions become more favorable
  - Given the dislocation in the public markets in 2023 there was a tremendous uptick in take-private transactions, with 43 completed in H1'23 – the highest amount in the last 15 years. 23 of the take-private transactions had a transaction value below $1 billion

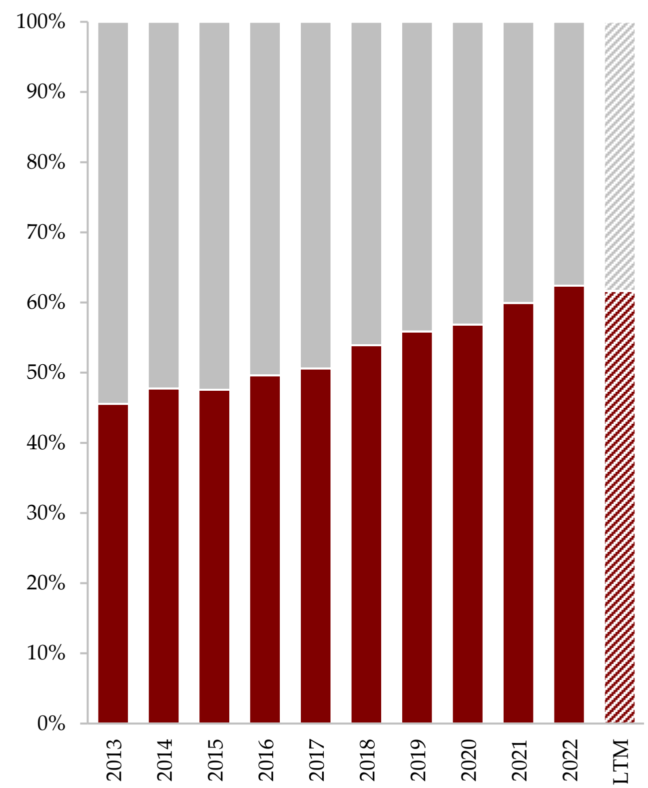
PE Deal Value by Transaction Size



PE Deal Count by Transaction Size



PE Deal Count Mix by Type



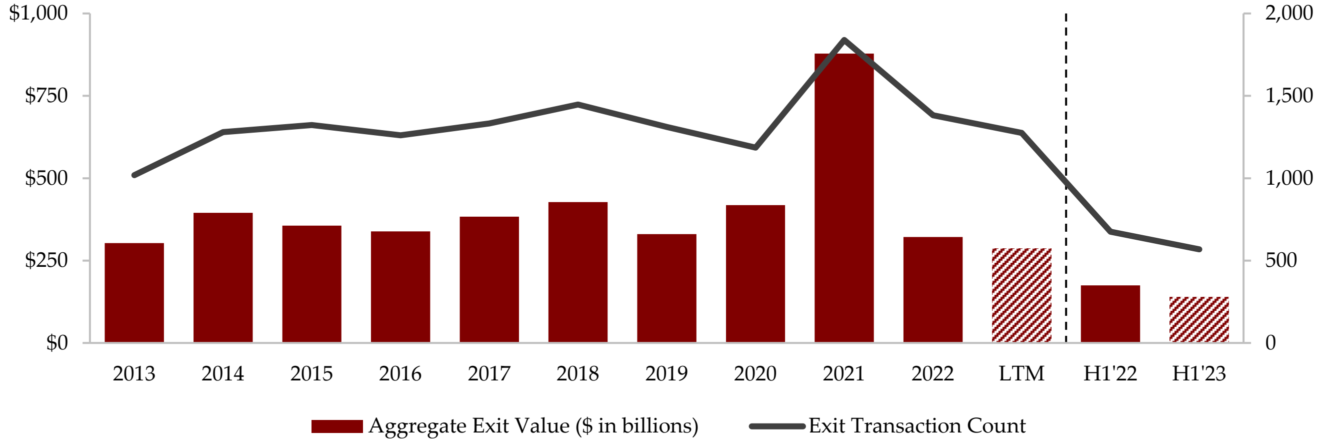
< $25M | $25M - $100M | $100M - $500M | $500M - $1,000M | $1,000M+

Note: Transaction data as of June 30, 2023
Source: Pitchbook, Wall Street research, and Livingstone proprietary insights

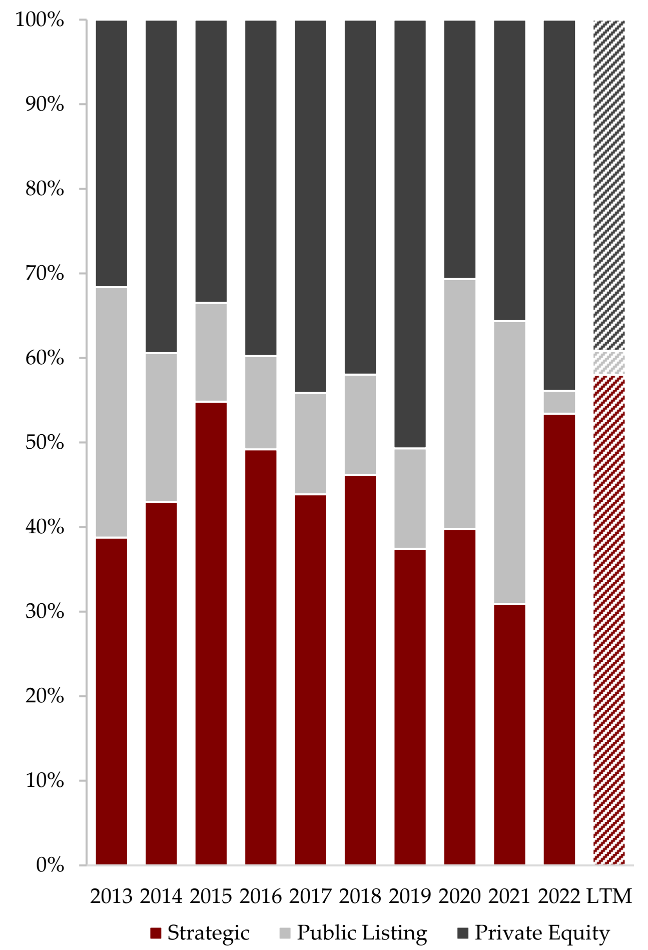
U.S. Private Equity Exit Transaction Trends

- After a significant increase in exit activity in 2021, private equity funds have hesitated to monetize portfolio companies in the current macro environment
  - Relative to 2022, for the twelve-months ended June 30, 2023 the number of private equity exit transactions and the associated transaction value decreased 7.7% and 10.0%, respectively
  - The YoY decline in exit activity for H1’23 is more pronounced, with the number of transactions and aggregate transaction value down 15.8% and 20.1%, respectively
- Given the uneven performance of the public markets, the most common avenue for an exit transaction remains the sale to either a strategic buyer (58%) or to another, often-larger private equity fund (39%)
- Beginning in 2022 the number of completed IPOs decreased significantly, with 202 at the height of the market in 2021 compared to 22 in both 2022 and YTD June 2023. As a result, the exit backlog continues to grow which could drive financial sponsors to eventually recalibrate their value expectations or to seek creative exit alternatives to maximize shareholder returns

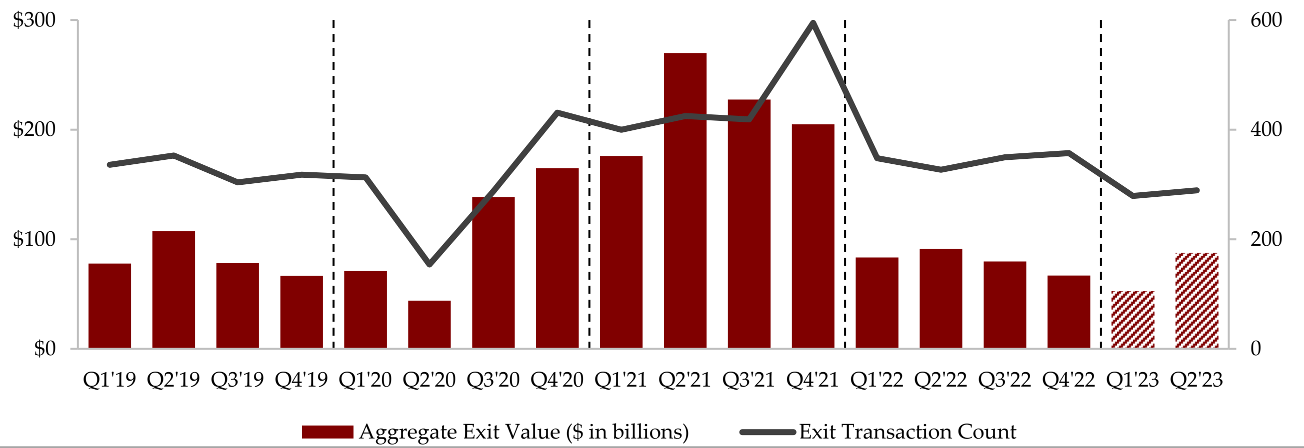
U.S. Private Equity Exit Transaction Activity by Year (2013 – LTM June 2023)



U.S. PE Exit Value Mix by Acquiror Type



U.S. Private Equity Exit Transaction Activity by Quarter (Q1’19 – Q2’23)



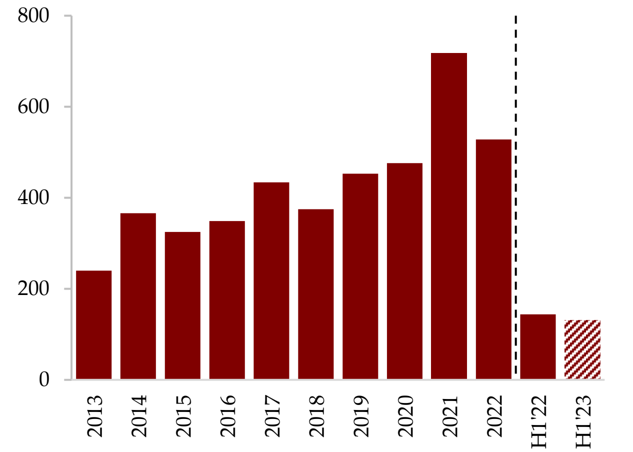
Note: Transaction data as of June 30, 2023
Source: Pitchbook, Wall Street research, and Livingstone proprietary insights

U.S. Private Equity Buyout Fund Raising Trends

- The record level of capital raised since 2021 combined with the moderation in overall deal activity has resulted in a near record amount of dry powder for U.S. private equity funds, which is estimated to be ~$900 billion as of 2022 calendar year end
- The fundraising environment in 2023 has become more challenging as many limited partners have encountered liquidity constraints due to an over allocation of capital to the private equity asset class and a slowdown in the distributions from past private equity commitments
- At the same time, the average time between funds raised has continued to shorten, declining from 3.7 years in 2019 to 2.6 years in 2023, creating more pressure for limited partners to participate in newer funds
- Limited partners have become more selective and have prioritized their longest-running relationships with larger and more established private equity funds

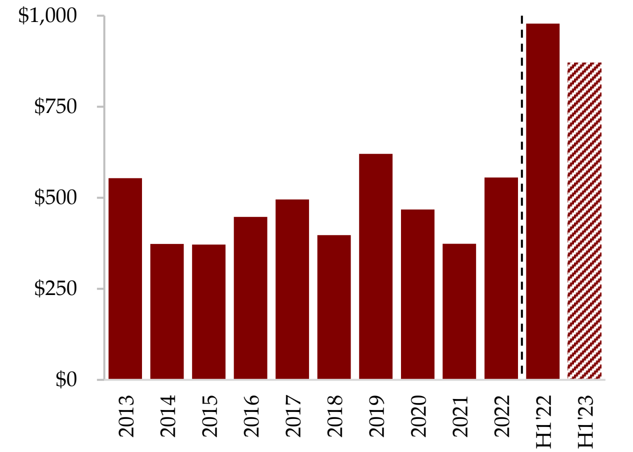
U.S. Private Equity Buyout Fund Raising Trends (2013 – YTD June 2023)

Number of New Buyout Funds Closed

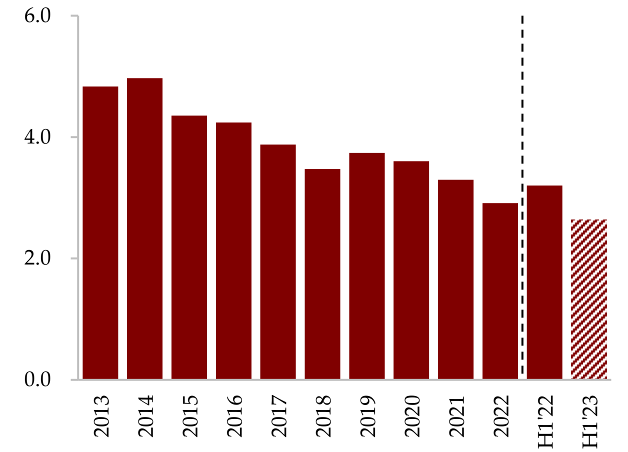


Average Size of New Buyout Funds Closed

($ in millions)

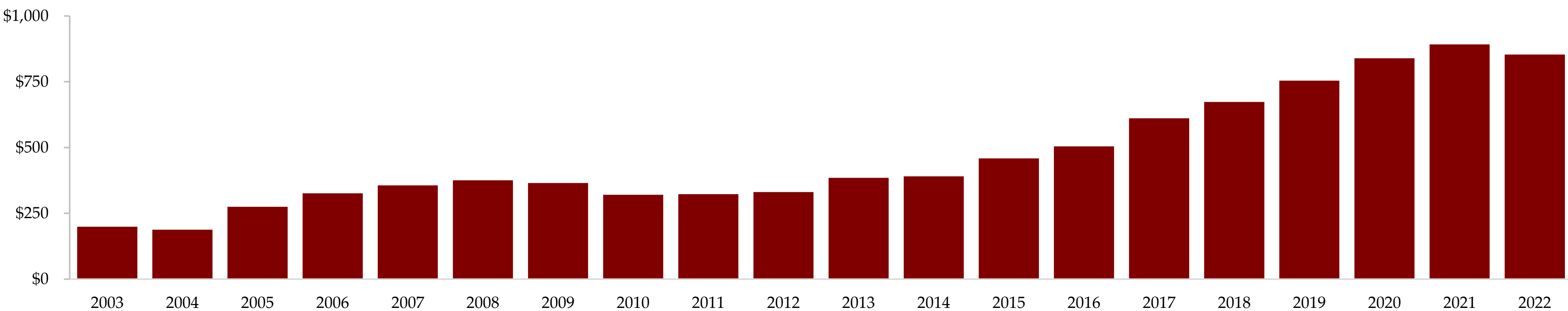


Average Time Between Funds (Years)



U.S. Private Equity Buyout Fund Dry Powder by Year

($ in billions)



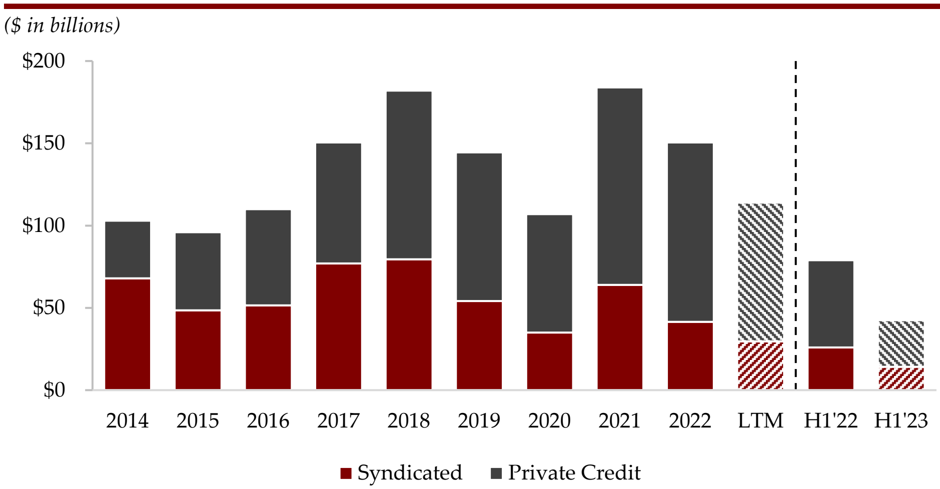
Livingstone

Note: Data as of June 30, 2023
Source: Pitchbook, Wall Street research, and Livingstone proprietary insights

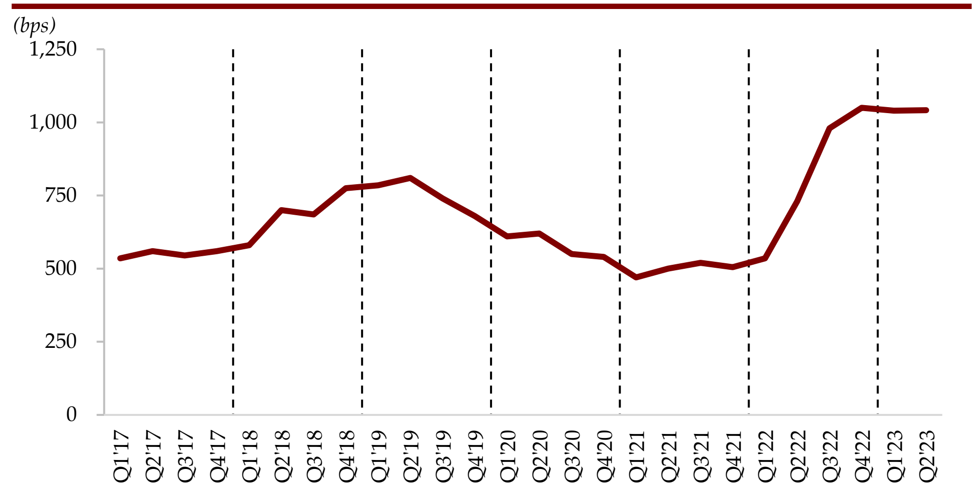
Middle Market Debt Capital Market Update

- The M&A and broadly syndicated loan markets demonstrated signs of stress in early Q3'22 which continued into 2023, in part due to uncertain macroeconomic conditions and an environment characterized by rapidly rising interest rates
- Direct lenders have capitalized on the dislocation in the market by providing more flexible terms and greater execution certainty to borrowers. As a result, direct lenders have continued to capture market share and accounted for more than 90% of all new buyout loans issued in 2023
  - The availability and cost of debt capital continues to weigh on overall buyout deal activity with total issuance declining 35% YoY
- Since March 2022, the Fed Funds rate has been lifted 11 times by a total of 500 bps, which has caused the average borrowing cost for buyout loans to more than double over that time even though the average spread on new leveraged loans has remained stable

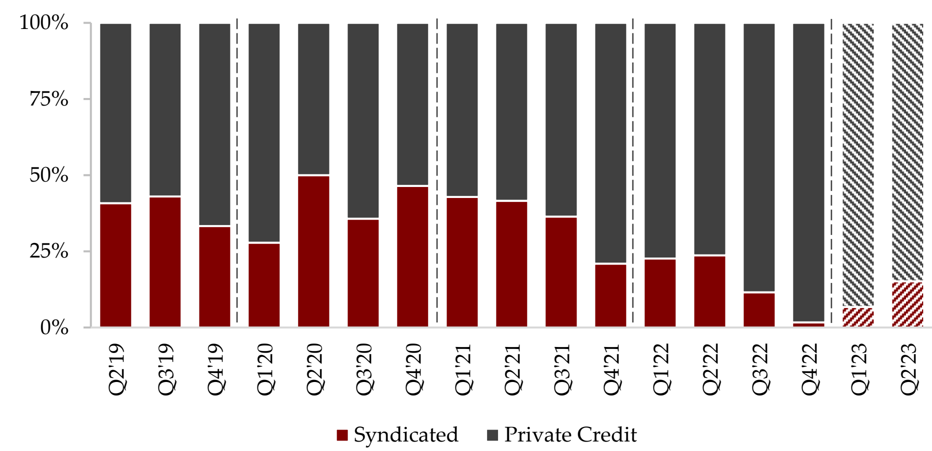
U.S. Middle Market Buyout Loan Issuance by Type



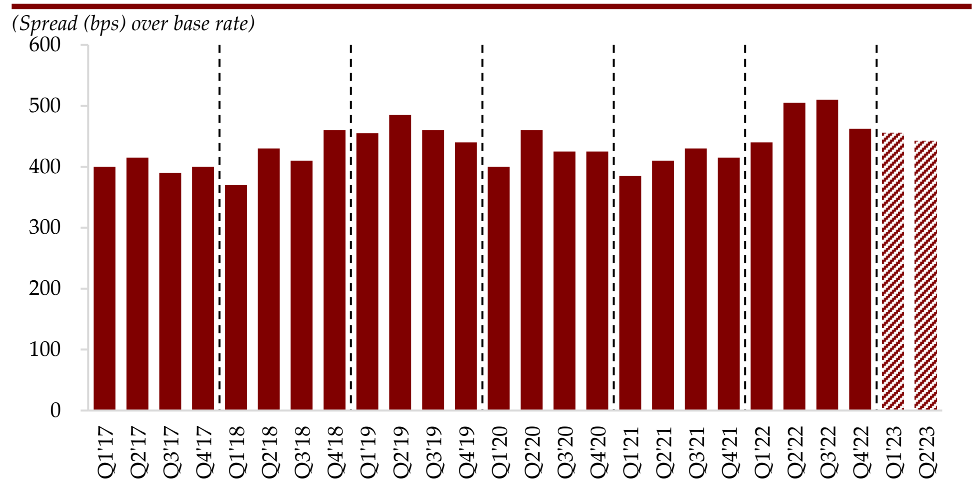
Implied Yield-to-Maturity on New Buyout Loans by Quarter



U.S. Middle Market Buyout Loan Count by Type



New Issue Spread on Buyout Loans by Quarter

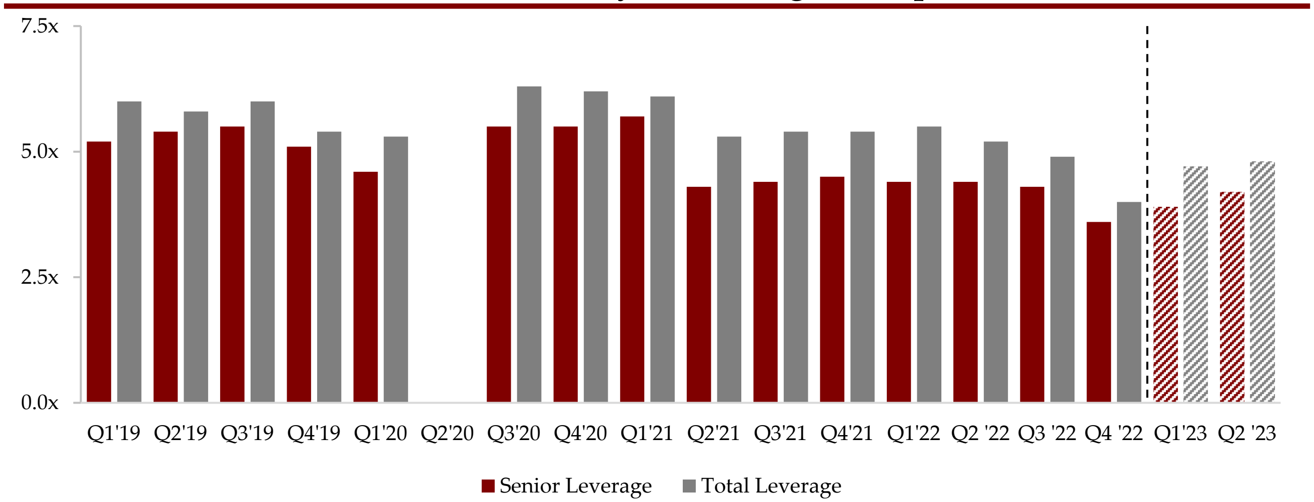


Note: Data as of June 30, 2023
Source: Pitchbook, Wall Street research, and Livingstone proprietary insights

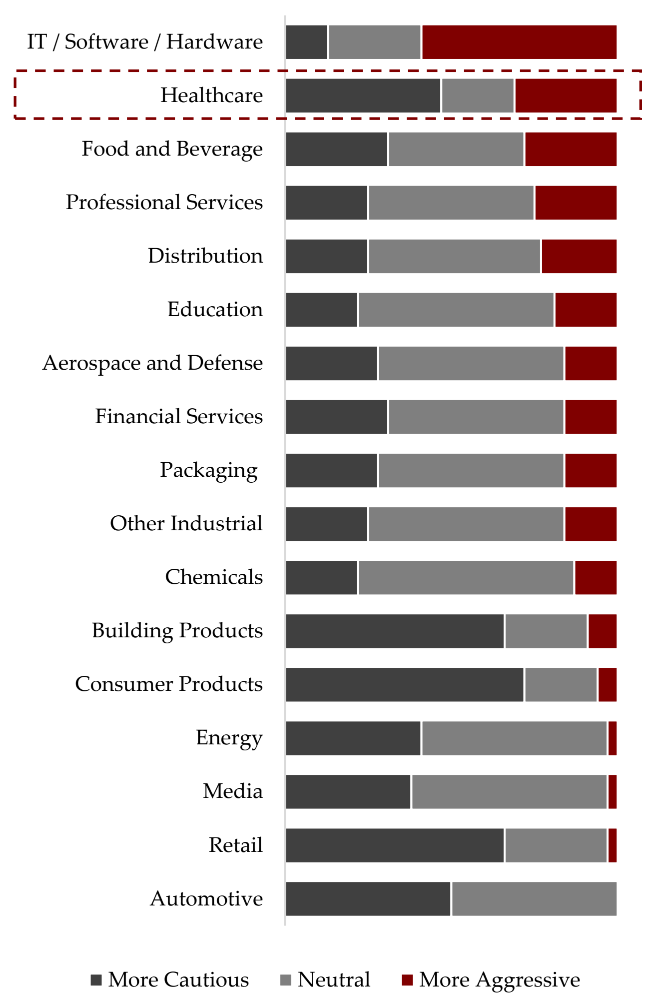
Middle Market Debt Capital Market Update *(continued)*

- Recessionary concerns combined with a hawkish Fed have resulted in greater lender conservatism as it relates to key lending terms (e.g., leverage, minimum equity contribution, etc.), overall liquidity in the market, and the sectors in which lenders want to deploy new capital have shifted towards non-cyclical industries such as healthcare and IT / software
- In 2021 and early 2022, issuers were seeking to maximize leverage on deals and now, given the change in market conditions, are more focused on optimizing the capital structure for portfolio companies (e.g., more prudent amounts of leverage, stronger free cash flow coverage, and larger equity checks)
  - The average total leverage on new middle market buyout loans has contracted from ~6.0x to ~4.5x
  - The decline in available leverage for new buyouts has resulted in larger equity contributions from investors, with nearly 80% of all buyouts since Q4'22 requiring an equity check at or above 35% of the total financing sources

Middle Market Buyout Leverage Multiples

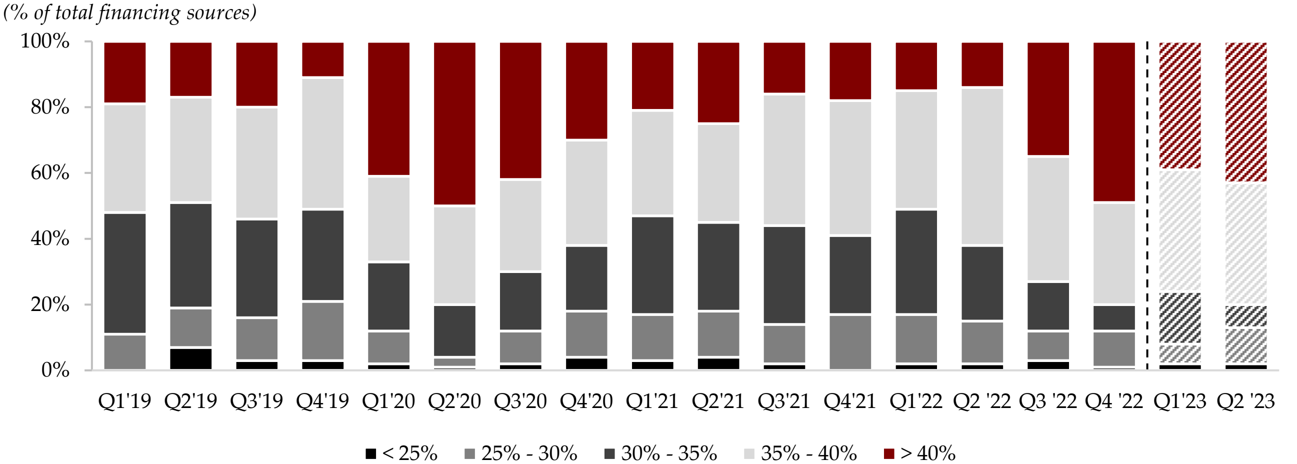


Change in Lender Preference by Sector (1)



Equity Contribution Required for Private Equity Transactions

(% of total financing sources)



Note: Data through June 30, 2023
Source: Wall Street research and Livingstone proprietary insights
(1) Today vs. six months ago. Survey data as of June 2023

Middle Market Debt Capital Market Update *(continued)*

After significant tightening throughout 2022, most lenders expect leveraged loan pricing and terms to remain the same for the remainder of 2023, while the higher cost to service debt has driven an increase in default rates among borrowers although the default rate remains below the historical average

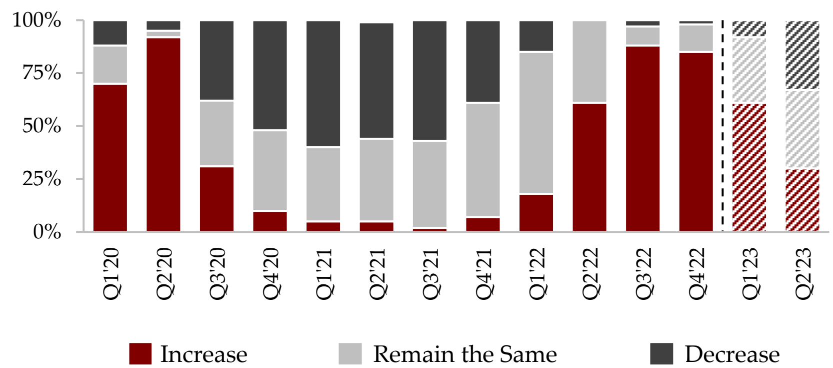
Key Observations

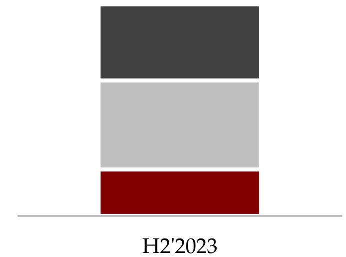
- Rising interest rates and the resulting pressure on free cash flow and fixed charge coverage
- Future Fed policy decisions will continue to influence lender risk appetite
- Credit terms have tightened for high quality borrowers, while lower quality issuers struggle to secure financing
- Stress on lender balance sheets and among portfolio companies due to macro factors and rising interest burden
- Rising default rates and covenant trips among portfolio companies, although most remain in good financial health
- Emergence of highly structured recapitalizations for troubled borrowers, often requiring additional equity as part of the solution
- Sophisticated issuers are coming to grips that rates are probably not going lower in the near-term
- Looming leveraged loan maturity wall of $33 billion in 2024 and $150+ billion in 2025
- Eventual reopening of the broadly syndicated loan market

Historical Lender Sentiment by Quarter

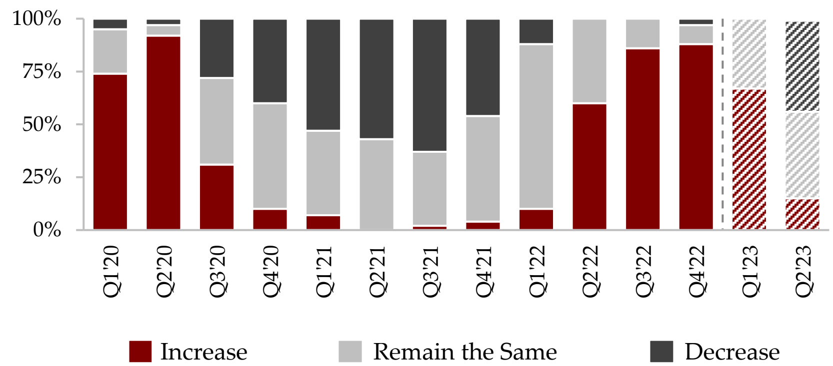
H2’23 Expectations

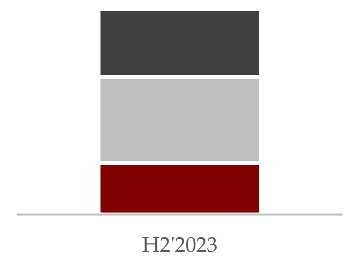
Leveraged Loan Pricing



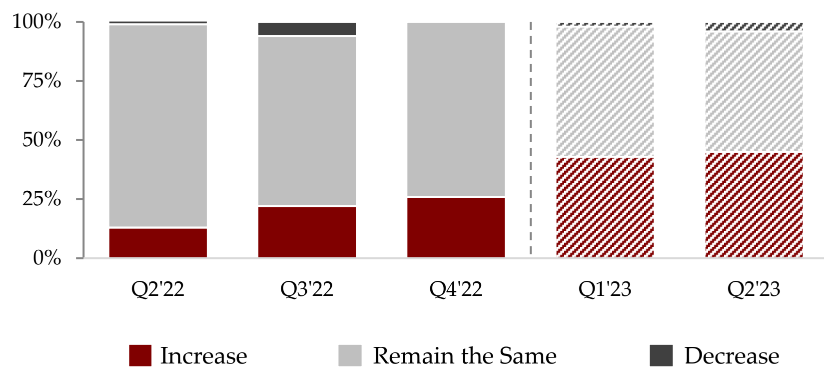


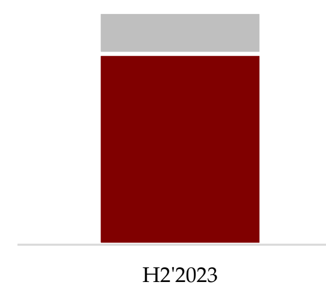
Leverage and Terms





Default Rate Expectations



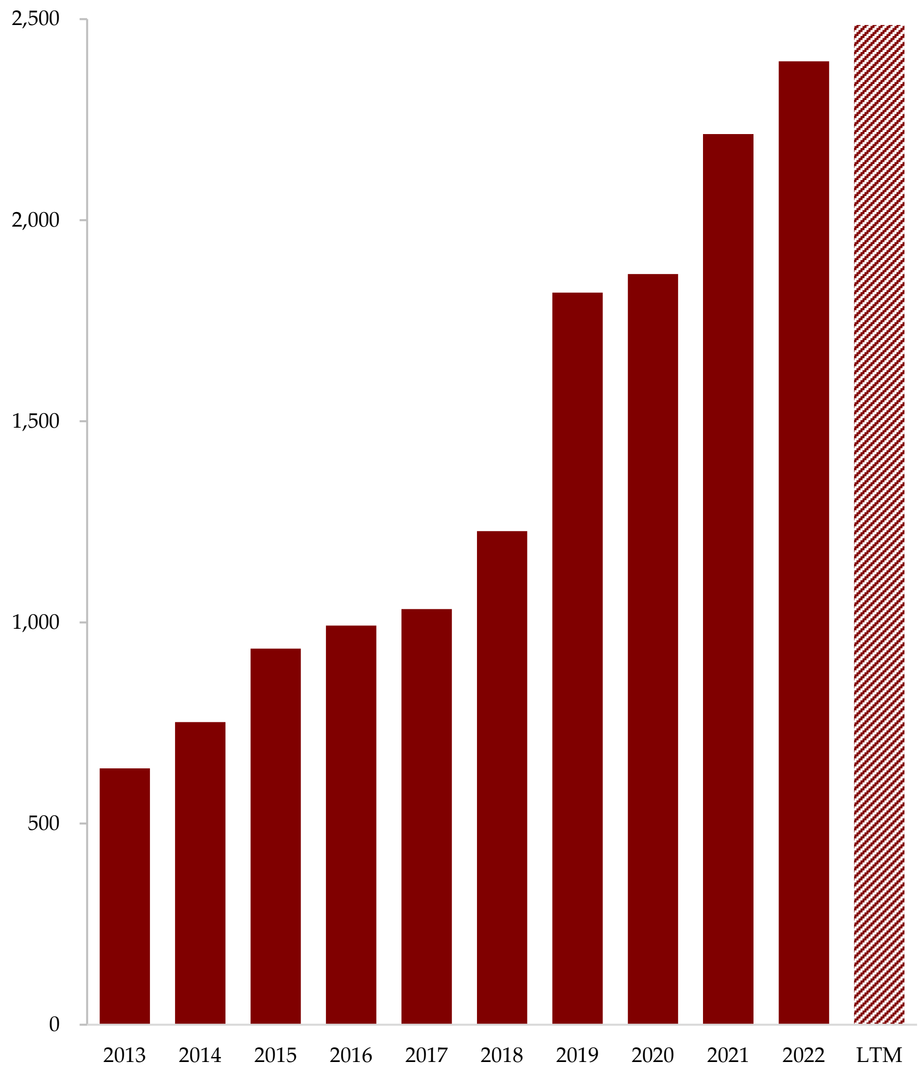


Note: Data through June 30, 2023
Source: Wall Street research and Livingstone proprietary insights

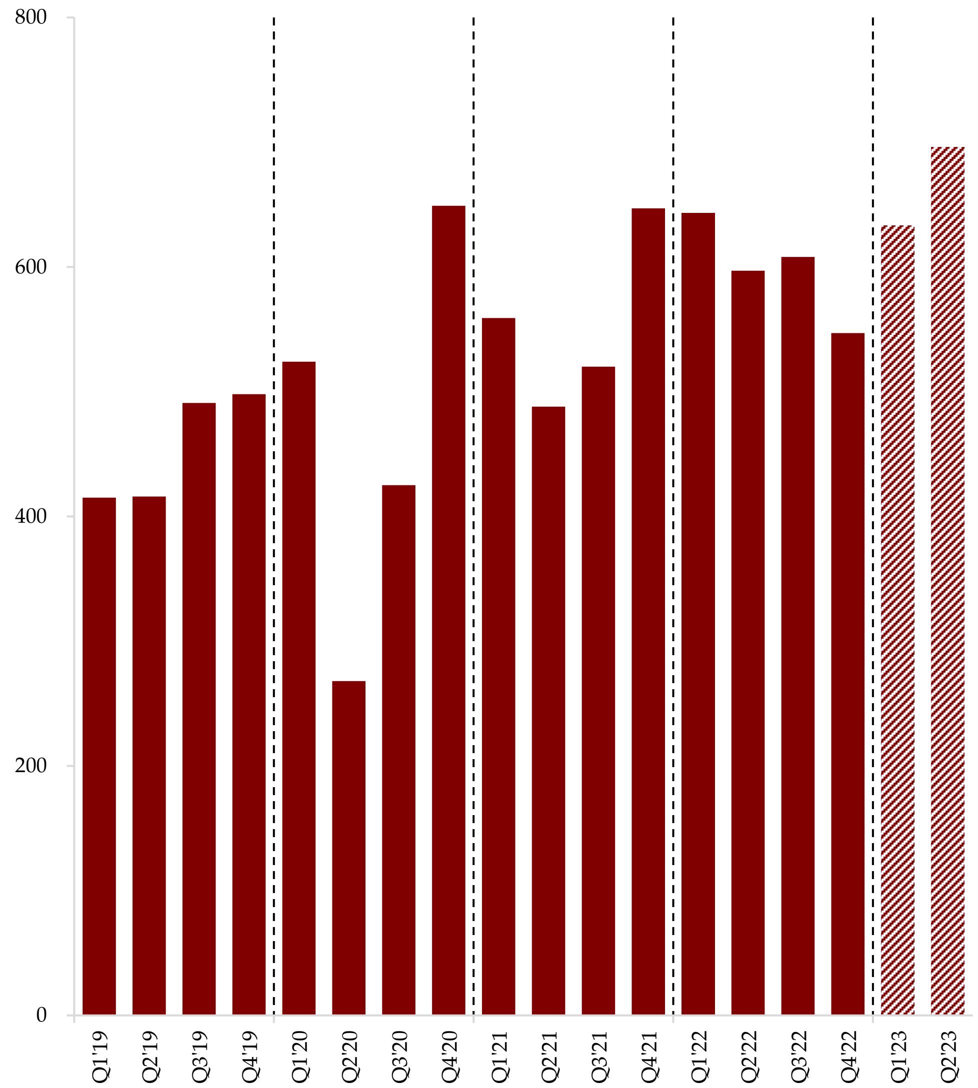
U.S. Healthcare Services M&A Transaction Trends

Healthcare Services M&A transaction volume has continued to increase YoY, despite the broader macroeconomic pressures, with 2022 setting a new all-time high for closed transactions. Transaction activity has remained strong in 2023 with 1,300+ closed deals (up 7% YoY)

U.S. Healthcare Services M&A Transactions by Year



U.S. Healthcare Services M&A Transactions by Quarter



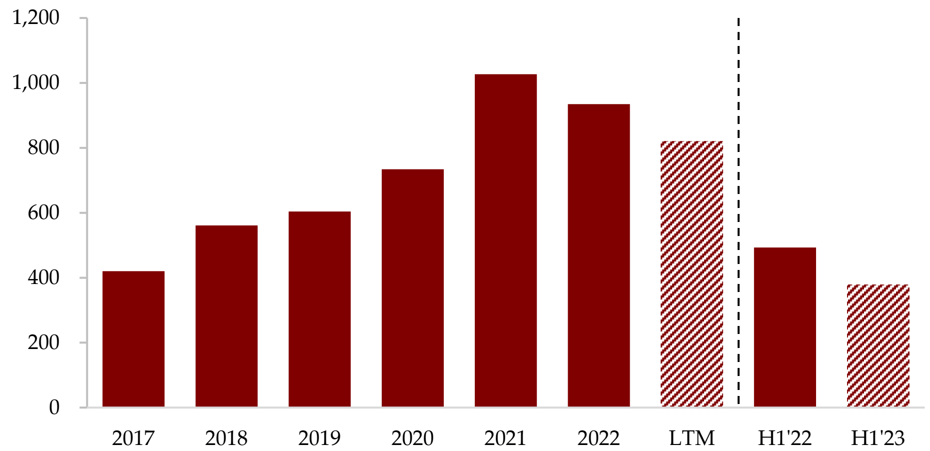
Livingstone

Note: Data through June 30, 2023
Source: Wall Street research and Livingstone proprietary insights

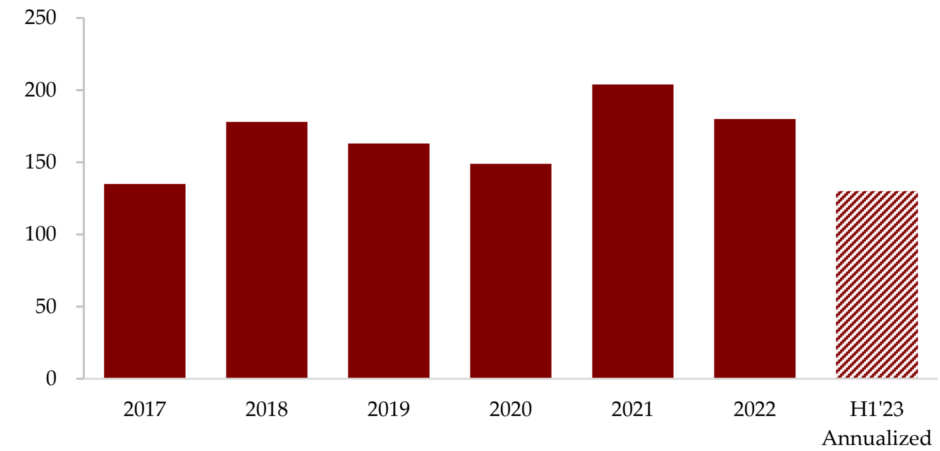
U.S. Private Equity Healthcare Services M&A Transaction Trends

- While overall deal activity in healthcare services has continued to increase YoY, private equity deal activity in the sector has moderated from the all-time highs observed in H2'22 and 2021, with six consecutive QoQ declines in the quantity of closed deals
- In Q2'23 the number of closed deals was the lowest mark observed since Q2'20 (COVID-19 impacted) and is less than half of the peak deal count in Q4'21
- Given private equity's reliance on leverage to achieve higher rates of return, it is not a shock that the debt capital market conditions have contributed to the declining M&A activity, especially with a small number of heavily leveraged platforms straining under the growing cost to service debt and impending debt maturities
- The current disruption in the market is most evident in the cadence of exit transactions, which on an annualized basis are down 60% YoY and down ~75% from 2021
- Private equity funds cannot hold portfolio companies indefinitely. While any prudent investor wants to avoid monetizing an unattractive return, if market conditions fail to improve over the next six to 12 months, financial sponsors may be more likely to recalibrate value expectations or to explore more creative exit alternatives

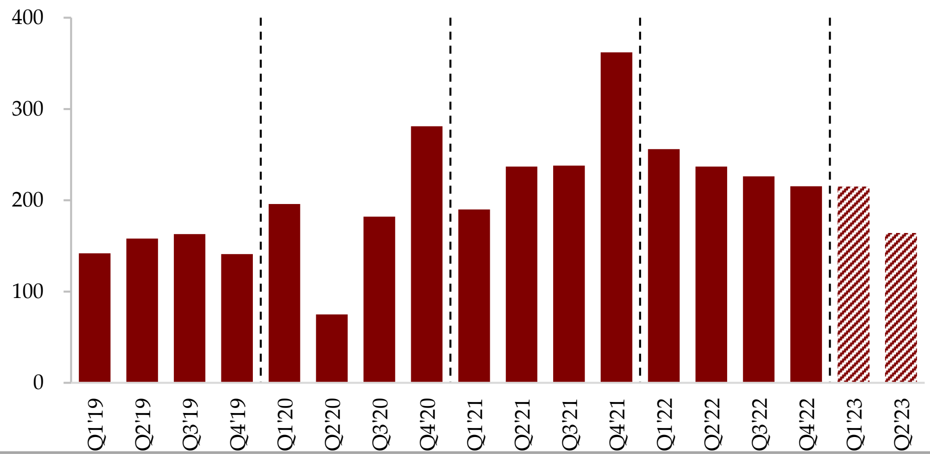
All U.S. PE Healthcare Services Transactions by Year



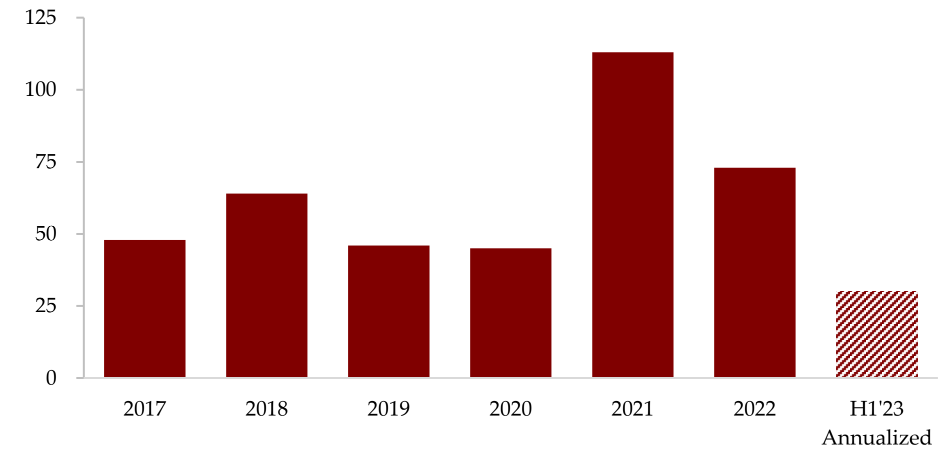
U.S. PE Healthcare Services New Platform Transactions by Year



U.S. PE Healthcare Services Transactions by Quarter



U.S. PE Healthcare Services Exit Transactions by Year

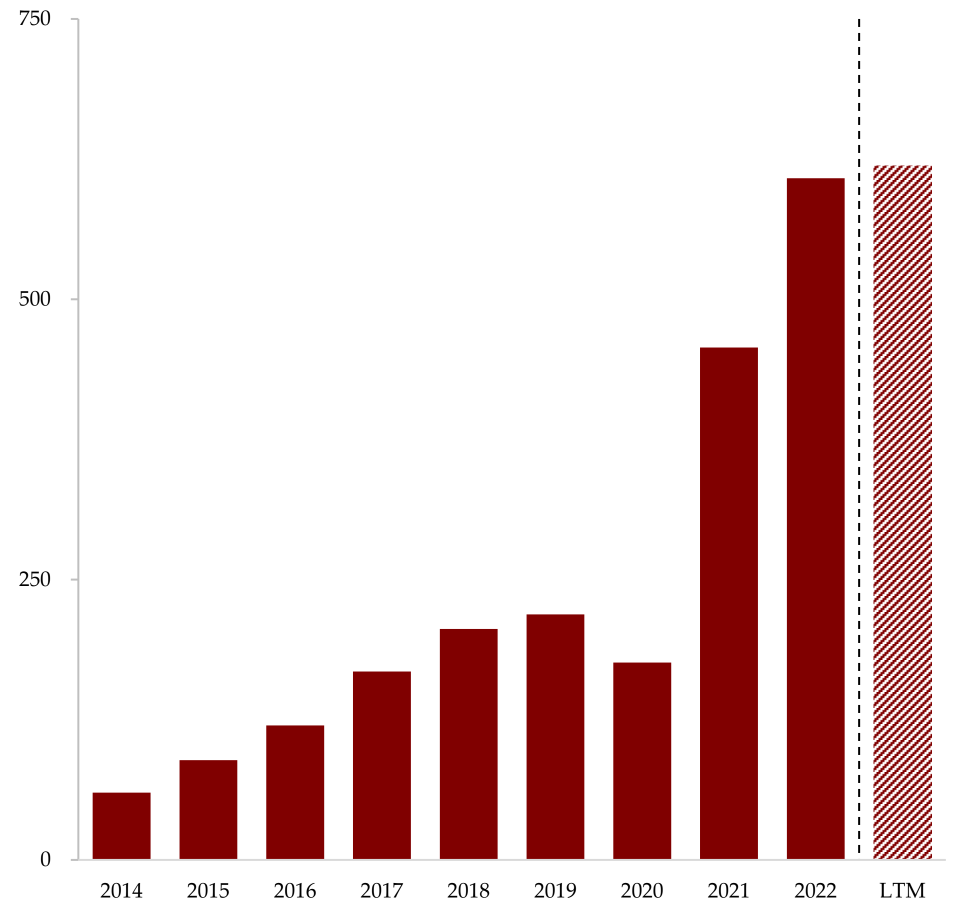


Note: Data through June 30, 2023
Source: Pitchbook, Livingstone proprietary insights, and Wall Street research

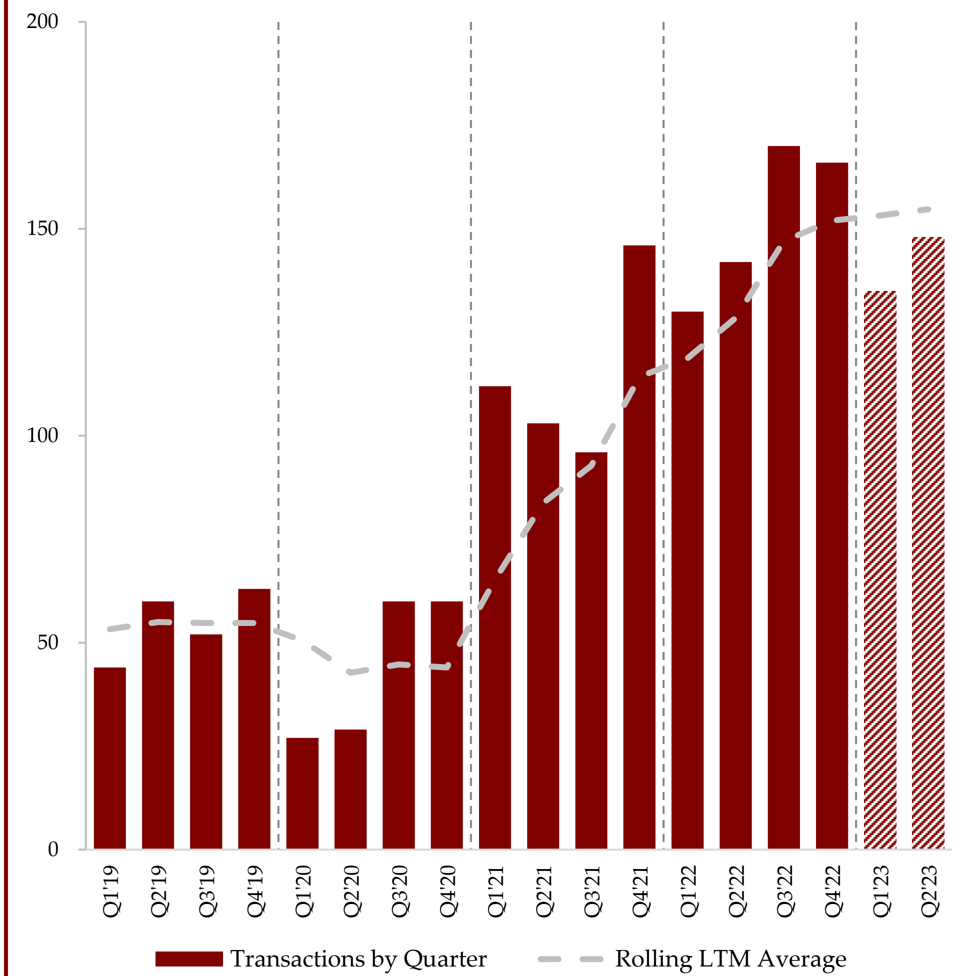
PPM M&A Transaction Trends

- Beginning in Q1 of 2021 PPM deal activity surged to historic levels, setting consecutive new high-water marks for closed transactions in 2021 and 2022 which were 2x and 3x the previous all-time high set in 2019
  - M&A activity was driven by a combination of additional platform investments and add-on affiliations in consolidating sub-specialties (e.g., dermatology, ophthalmology, etc.), as well as new platform investments in emerging sub-specialties (e.g., ENT, cardiology, etc.)
- In 2023 PPM deal activity has moderated, with the number of closed deals up 4% YoY in H1'23. For comparison, H1'22 deal activity was up 27% YoY

PPM M&A Transactions by Year



PPM M&A Transactions by Quarter

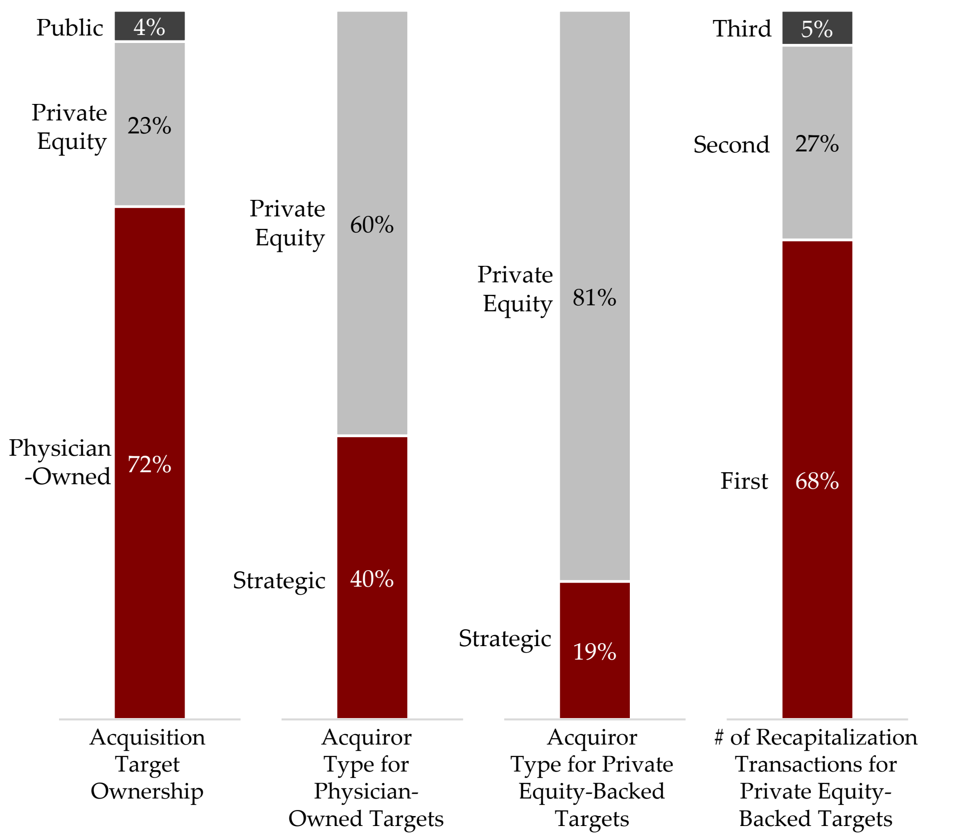


Note: Data through June 30, 2023
Source: Wall Street research and Livingstone proprietary insights

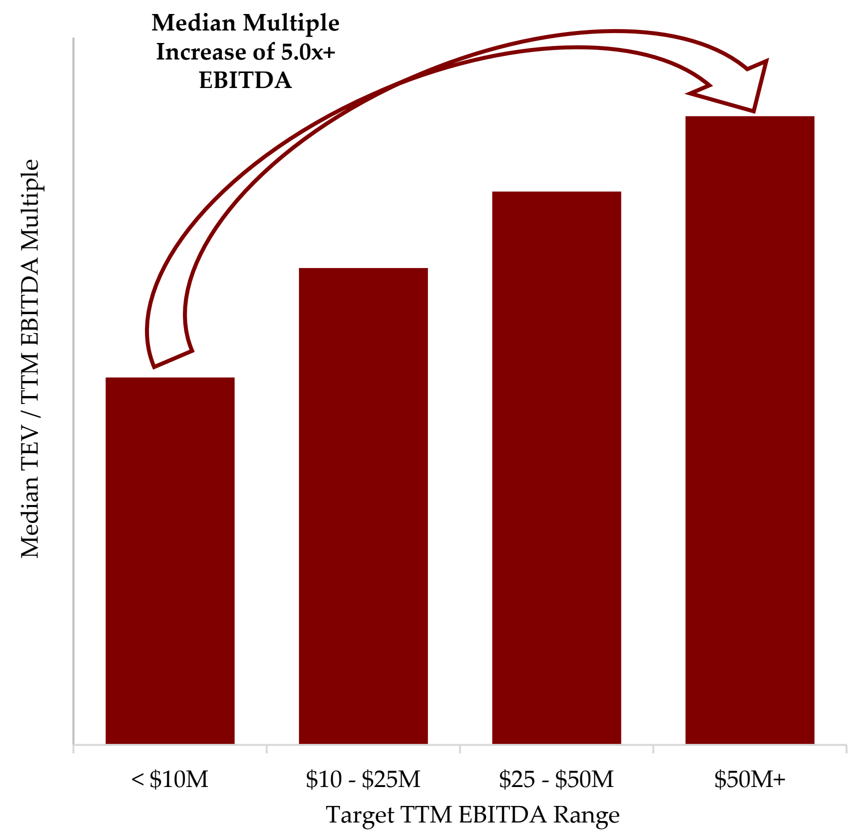
Additional PPM Transaction Trends and Valuation Observations

- Livingstone's proprietary analysis of 200+ PPM M&A transactions completed since 2017 suggests a positive correlation between target size (e.g., EBITDA) and valuation multiple. Larger platforms benefit from scarcity value in addition to having experienced executive teams, scalable corporate infrastructure, a comprehensive growth strategy, and a more diversified business mix
  - Over the past decade, ~60% of the value creation in private equity buyouts has resulted from multiple expansion (e.g., achieving a higher valuation multiple at exit) and ~40% from revenue growth and EBITDA margin expansion of the underlying portfolio company
- Since 2017, 72% of the PPM M&A transactions involved targets that were 100% physician-owned and, in those transactions, the mix of acquirors was ~60% private equity and ~40% strategic buyers
- Among the M&A transactions involving targets that were already private equity-backed, the most common acquiror was another (and often larger) private equity fund, which accounted for 81% of all such M&A transactions

Selected PPM M&A Transaction Mix Metrics



Median EBITDA Valuation Multiple by Target Size



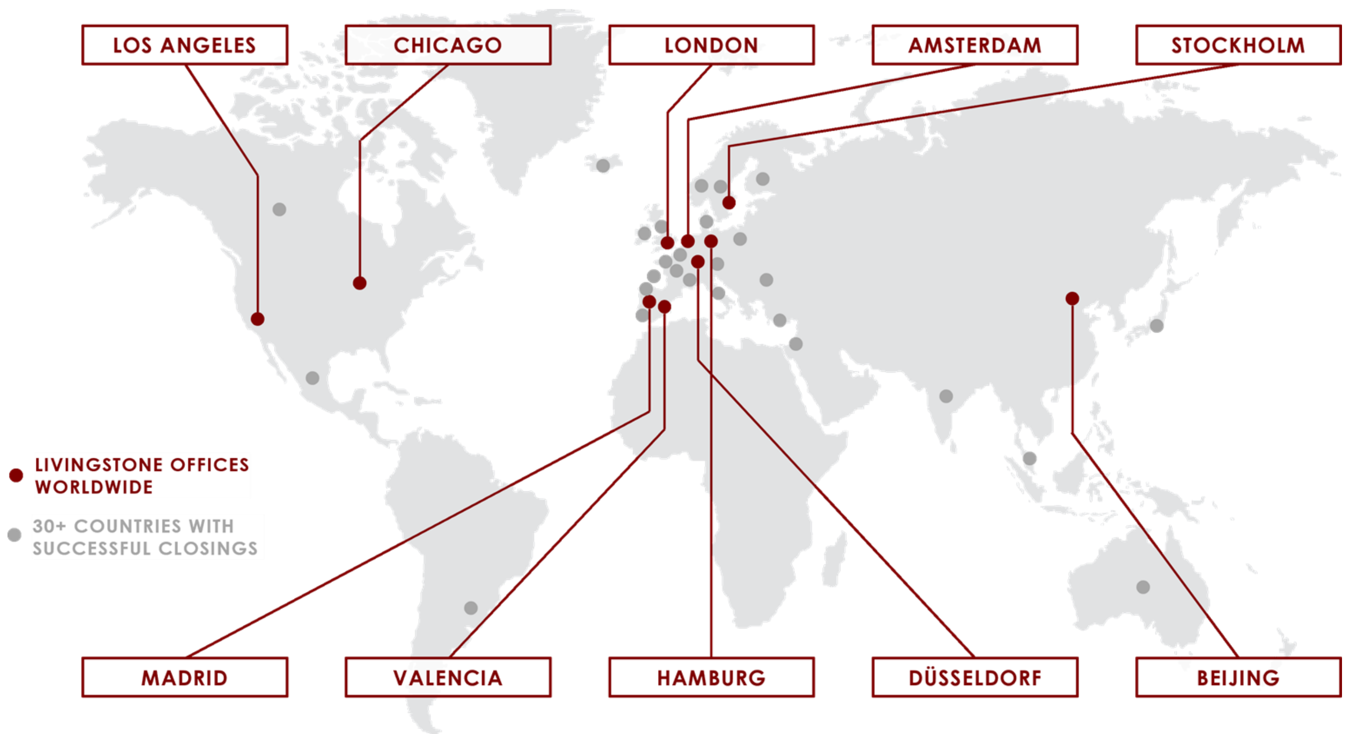
Source: Livingstone proprietary insights and industry research

IV. Livingstone Healthcare Group Update

Uniquely International M&A and Debt Advisory Firm

EVERY SUCCESSFUL DEAL BEGINS AND ENDS THE SAME WAY.
OUR VALUE IS PROVEN IN BETWEEN. WE DON'T JUST GET DEALS DONE, WE GET…

Deals done right.



MERGERS & ACQUISITIONS

Sell-side, Buy-side

DEBT ADVISORY

Senior/Secured, Junior/Unsecured, Preferred Securities

SPECIAL SITUATIONS

Distressed M&A, Distressed Refinancings, Balance Sheet Restructurings

100+	23+ years	$25-500M	50+	Expertise
PROFESSIONALS WORLDWIDE	AVERAGE PARTNER EXPERIENCE	TRANSACTION FOCUS	TRANSACTIONS CLOSED ANNUALLY	HEALTHCARE BUSINESS & TECH SERVICES CONSUMER INDUSTRIAL

Robust Healthcare Advisory Practice with Deep Experience in Multiple Subsectors

70+	90%+	95%	70%	45%	55%
Closed Healthcare M&A Transactions	Healthcare M&A Transaction Close Rate	of Sell Side Transactions Closed at or Above Pitch Range	of Sell Side Healthcare Companies were Founder-Owned	of Healthcare Companies Sold to Private Equity	of Healthcare Companies Sold to a Strategic Buyer

Proven Expertise Across the Healthcare Continuum …

- Behavioral Health
- Contract-Based Providers
- Dental Services / Products
- Home Health / Hospice
- Pharmacy Services
- Physical Therapy
- PPM
  - Anesthesia / Pain Management
  - Cardiology
  - Dermatology
  - Emergency Medicine
  - ENT
  - Gastroenterology
  - Orthopedics
  - Podiatry
  - Primary Care
  - Urology
  - Vision
  - Women's Health
- Medical Products
- Outsourced Pharma Services

… And the Leading Advisor in the MSK Sector

Unparalleled Orthopedic Transaction Experience

Livingstone's Senior Healthcare Team has Advised on the Most Orthopedic and MSK Transactions

Deep Relationships

with Key Decision Makers at the Most Relevant Financial and Strategic Buyers

Senior Banker-Led Deal Execution

Flawless Execution is a Hallmark of the Livingstone Model – We Are Only as Good as Our Last Deal

Bespoke Livingstone Process Design

with Tailored Positioning to Each Buyer – Not a One Size Fits All Approach

Proven Track Record of Exceptional Outcomes

Consistently Sell Healthcare Companies for Double-Digit Valuation Multiples

Trusted Advisor to Founder-Owned Companies

Extensive Experience Guiding Founders Through Every Step of a Successful Transaction Process

Relevant Healthcare Transaction Credentials: Unmatched Advisory Expertise Across the Continuum of MSK Care

ORTHOPEDICS

HOPCo
a portfolio company of
FRAZIER HEALTHCARE PARTNERS

leading orthopedic care coordination and value-based care platform has received a growth equity investment from

Audax Group
and
LINDEN

ORTHOPEDICS

KOHLBERG & COMPANY

leading end-to-end orthopedic platform in the northeast has completed a growth capital partnership with

ONS Orthopaedic & Neurosurgery Specialists
now doing business as
SPIRE ORTHOPEDIC PARTNERS

ORTHOPEDICS

HOPCo
a portfolio company of
FRAZIER HEALTHCARE PARTNERS

has partnered with an orthopedic practice with 15+ physicians and six locations in Florida

SOUTHEAST ORTHOPEDIC SPECIALISTS

ORTHOPEDICS

The Orthopaedic Institute

leading end-to-end orthopedic platform in the southeast with 30+ physicians has completed a recapitalization transaction with

VARSITY HEALTHCARE PARTNERS

ORTHOPEDICS

ORTHOPÆDICS

leading orthopedic physician practice and ambulatory surgery center has been sold to

CADENCE HEALTH
Northwestern Medicine

ORTHOPEDICS

The Orthopaedic Institute

has completed a sale and leaseback transaction involving six clinics and an ASC with

MB Real Estate

ORTHOPEDICS

SIGNATURE MEDICAL GROUP

large multi-specialty practice with 120+ physicians, including 70 orthopedic surgeons, at 40+ locations

Financial and Strategic Advisory

ORTHOPEDICS

DALBERG KLINIK Fachklinik für Chirurgie

a high-quality single-specialty hospital for orthopedic surgery in Germany has been acquired by

MEHILÄINEN

PODIATRY

WEIL FOOT & ANKLE INSTITUTE
a portfolio company of
STONEHENGE PARTNERS
Aureus Capital

a premier podiatric care provider with 60+ podiatrists and physical therapists in IL, WI, MI, and VA has merged with

BALANCE HEALTH
a portfolio company of
An Undisclosed Private Equity Fund

PODIATRY

WEIL FOOT & ANKLE INSTITUTE

leading provider of podiatry services and surgeries across the Chicagoland area secured an investment from

STONEHENGE PARTNERS

PAIN MANAGEMENT

Project CATALYST

leading interdisciplinary interventional pain management platform in the Southwest

Pending

PAIN MANAGEMENT

Project MAGNOLIA

leading physician-owned interventional pain management practice based in the Southeast

Pending

PAIN MANAGEMENT

ADVANCED PAIN MANAGEMENT

leading interventional pain management platform in the Midwest

Strategic Advisory

PHYSIATRY

National Health Rehabilitation

leading national physiatrist physician practice serving skilled nursing facilities has been sold to

Integrated Rehab Consultants Physical Medicine & Rehabilitation Physicians
a portfolio company of
Webster Equity Partners

PHYSIATRY

Integrated Rehab Consultants Physical Medicine & Rehabilitation Physicians

leading national physiatrist group serving skilled nursing facilities has been sold to

Webster Equity Partners

Livingstone

Note: selected transaction were completed by Livingstone professionals while at prior firms

Relevant Healthcare Transaction Credentials *(continued)*

Livingstone is a leading M&A advisor to Physical Therapy Operators and PPM platforms across sub-specialties

MEDICAL AESTHETICS	ANESTHESIA	GASTROENTEROLOGY	ANESTHESIA	ANESTHESIA
Cosmetic Skin & Laser Center	AMS Ambulatory Management Solutions	Arizona Centers for Digestive Health	Grand Canyon Anesthesiology Consultants "Rest Assured"	Anesthesia Associates of Ann Arbor
premier aesthetic medical practice providing cosmetic and regenerative medicine treatments has been sold to	leading provider of office-based anesthesia has received a growth capital investment from	leading end-to-end GI platform in Arizona has completed a partnership with	leading provider of outpatient anesthesia services in Arizona has been acquired by	leading anesthesia platform in Michigan has completed a recapitalization transaction and growth capital partnership with
Incline Equity Partners	VSS	Covenant Physician Partners *a portfolio company of* KKR	PhyMed Healthcare Group *a portfolio company of* Ontario Teachers' Pension Plan	Siromed *a portfolio company of* Prospect Hill Growth Partners

PRIMARY CARE	PRIMARY CARE	PHYSICAL THERAPY	PHYSICAL THERAPY	PHYSICAL THERAPY
Specialdocs Consultants	Ocean State Healthcare *a portfolio company of* New Harbor Capital	Motion PT Group *a portfolio company of* Pharos	therapypartner solutions *a portfolio company of* B & Walnut Grove	Foothills Therapy Partners
leading concierge primary care physician practice has been sold to	leading primary care physician practice has signed a definitive agreement with	leading outpatient physical therapy platform with a health system partnering and population health management strategy in the Northeast	leading comprehensive physical therapy platform has been sold to	largest independent outpatient physical therapy practice in Arizona has been sold to
Shore Capital Partners	VillageMD	Confluent Health *a portfolio company of* Partners Group	Lee Equity	Confluent Health *a portfolio company of* Partners Group

PHYSICAL THERAPY	PHYSICAL THERAPY	PHYSICAL THERAPY	PHYSICAL THERAPY	CONTRACT THERAPY SERVICES
agilityhealth Serving Together. Better.	Metro Sportsmed Physical & Occupational Therapy; Sports Therapy and Rehabilitation; Star Physical Therapy	New Harbor Capital	GTCR	renewal Rehab
a diversified physical therapy services provider has been sold to	providers of physical and occupational therapy have been merged to form Motion PT Group and recapitalized by	has acquired outpatient physical therapy provider	has acquired	has acquired outpatient physical therapy provider
Alliance Physical Therapy Partners *a portfolio company of* GPB Capital	Pharos Capital Group LLC	PT Solutions Physical Therapy	ATI Physical Therapy	Enhance Therapies

Note: selected transaction were completed by Livingstone professionals while at prior firms

A Trusted Advisor to Founder and Physician-Owned Companies

Livingstone understands the nuances of advising founder and physician-owned companies and the issues that private owners encounter when exploring various transaction alternatives

We Have Deep Sensitivity for What Makes the Sale Process for Physician-Owned Companies Unique

Representative Concerns

- Maintaining confidentiality both internally and externally
- Advisor "bait and switch" – how involved will the senior bankers of the deal team be?
- Advisor sensitivity – guiding and explaining, not merely executing
- "Burning out" the management / physician team – is the advisor's deal team leverageable?
- Am I getting the "right" deal in addition to the best economic deal?

Why Livingstone is Uniquely Positioned to be Your Partner

- We preserve confidentiality at all costs – we always have our clients' best interests in mind
- Our track record speaks for itself, and that success is driven by senior-level attention
- "Walking with you" every step of the way – listening, guiding as to options, next steps and potential pitfalls
- Bearing the burden of preparation and process execution so you can stay focused on running the practice day to day
- Pride in long-term relationships with past clients – many years after the end of the engagement
- Independent and conflict-free advisor

AMS Ambulatory Management Solutions — leading provider of office-based anesthesia has received a growth capital investment from — VSS

Kohlberg & Company — has completed a growth capital partnership with a leading end-to-end orthopedic platform in the Northeast — ONS Orthopaedic & Neurosurgery Specialists *now doing business as* Spire Orthopedic Partners

Arizona Centers for Digestive Health — leading end-to-end GI platform in Arizona has completed a partnership with — Covenant Physician Partners *a portfolio company of* KKR

Grand Canyon Anesthesiology Consultants "Rest Assured" — leading provider of anesthesia services to inpatient, outpatient, and office-based healthcare partners has been acquired by — PhyMed Healthcare Group *a portfolio company of* Ontario Teachers' Pension Plan

CSLC Cosmetic Skin & Laser Center — premier aesthetic medical practice providing cosmetic and regenerative medicine treatments has been acquired by — Incline Equity Partners

Anesthesia Associates of Ann Arbor — leading anesthesia platform in Michigan has completed a recapitalization transaction and growth capital partnership with — Siromed *a portfolio company of* Prospect Hill Growth Partners

The Orthopaedic Institute — leading end-to-end orthopedic platform in the southeast with 30+ physicians has completed a recapitalization transaction with — Varsity Healthcare Partners

Integrated Rehab Consultants Physical Medicine & Rehabilitation Physicians — leading national physiatrist group serving skilled nursing facilities has been acquired by — Webster Equity Partners

Research Triangle Dental — independent dental practice providing general dentistry and specialty care has been acquired by — Heartland Dental *a portfolio company of* KKR

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