FOCUS
Investment Banking

Healthcare Team

THE PHYSICIAN SELLERS GUIDE TO PRIVATE EQUITY FIRMS INVESTING IN ORTHOPEDICS

Investment Banking and Advisory Services

FOCUS Investment Banking LLC is a leading Investment Bank with specialized healthcare services expertise, concentrating on providing highly tailored services to middle market and larger organizations in this sector:

- Mergers & Acquisitions Advisory
- Corporate Development Consulting
- Strategic Partnering & Alliances
- Capital Financing, Debt & Equity
- Corporate Valuations

April 2019

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Physician Owner Specialization

Our Services .. New Highs in 2019

FOCUS Healthcare specializes in investment banking services focused on mergers & acquisitions involving clinicians. We represent physician groups in transactions with private equity and ASC management company investors across the United States.

We are a leading expert on this market and its participants. This White Paper is designed to share those insights with you – physician owners with valuable practices and ASCs contemplating their own transactions with private equity.

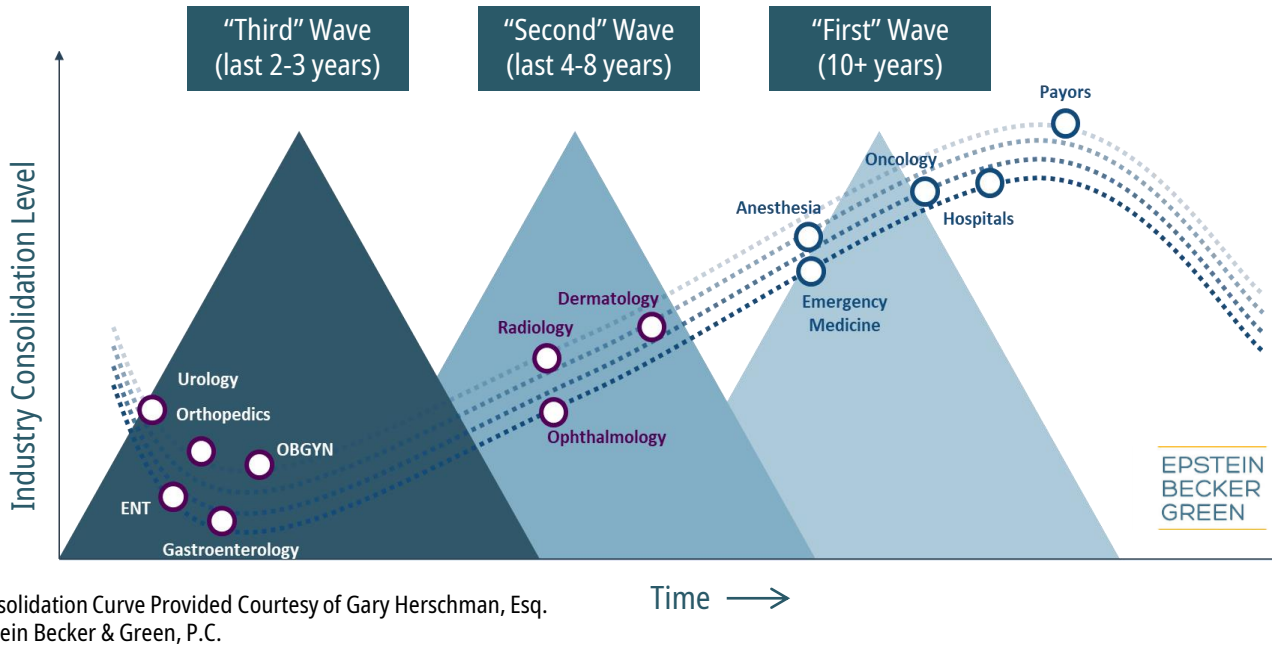
As former operators, we understand the unique attributes of specialty practices and surgery centers. We invest our time and money in the best data available and our partners constantly track transaction activity, conduct independent research, and analyze critical issues. We represent physicians every day and leverage the resulting experience and relationships to benefit our clients.

We Specialize in Second and Third Wave PPM

We focus on the emerging second and third wave sectors across the full spectrum of physician practices.

Consolidation Curve

Volume of M&A activity in each healthcare sector is driven by stage of consolidation



Consolidation Curve Provided Courtesy of Gary Herschman, Esq.
Epstein Becker & Green, P.C.

The Next Frontier for Private Equity

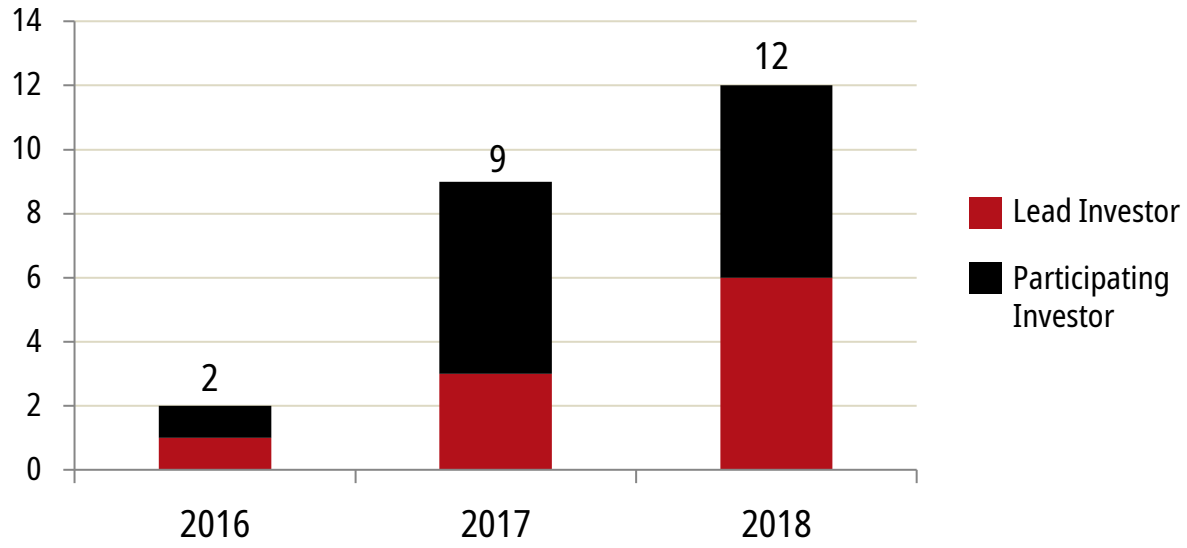
Most physicians are aware of private equity's massive investments in ophthalmology and dermatology practices. As of February 2019, 22 firms were investing in ophthalmology and 29 in dermatology. Additional players are waiting on the sidelines for the right opportunity to enter the market. Over a hundred ophthalmology private equity transactions have occurred, and even more in dermatology.

At the same time, investors are eyeing other specialties of interest. Common themes include relative insulation from economic forces, strong supply and demand forecasts, and compelling technological and regulatory developments – such as outpatient total joint replacements. Investors have emerged in gastroenterology, urology, women's health, allergy & asthma, podiatry, and others. In our opinion, no emerging specialty is of higher interest to investors than orthopedics.

Private equity can add the most value in changing environments. We believe that orthopedics, perhaps more than other specialties, is at a point in its evolution that will greatly benefit from private equity investment.

As of early 2019, twelve private equity firms have participated in major investments in orthopedic and spine practices … 6 as LEAD investors and 6 as participating investors. Though a very separate specialty, we include neurosurgery in this report due to the fact that investor interest thus far has centered around heavily spine-focused neurosurgery practices. That overlap between orthopedic and neurosurgical specialists within spine, to us, is a compelling reason to view these groups as part of the same investment wave.

Private Equity Firms Investing in Orthopedics and Neurosurgery



The Next Frontier for Private Equity (cont.)

In addition to the PE firms already investing, we have discussed the orthopedic space with many other firms eager to enter this market. Some already have similar investments in other specialties, in ambulatory surgery centers, or elsewhere in healthcare services. All see the compelling story of orthopedics.

We believe orthopedics is of interest to private equity primarily for the following reasons –

Strong Practice Profiles

The orthopedic landscape has a healthy population of large practices with ancillary revenue sources and strong management teams. These groups make excellent initial "platform" investments for private equity firms. They serve as the foundation for growth and add-on acquisitions of smaller practices within a regional market.

Aging Population

Like many specialties, orthopedics benefits from a population aging into spine, joint, and other types of major orthopedic care. Lifestyle factors are a secondary factor expected to further increase patient volumes.

Robust Ancillary Revenue Sources

Orthopedic practices benefit from a strong suite of ancillary revenue sources including ambulatory surgery centers, surgical hospitals, physical therapy, imaging, and more.

Technology and Migration to Outpatient Settings

Orthopedics is expected to benefit from new technology and regulatory change allowing additional procedures in the outpatient setting. Those changes have the potential to increase patient volumes, improve cost efficiencies, and enable further value-based payment initiatives (discussed below).

Alternative Payment Models

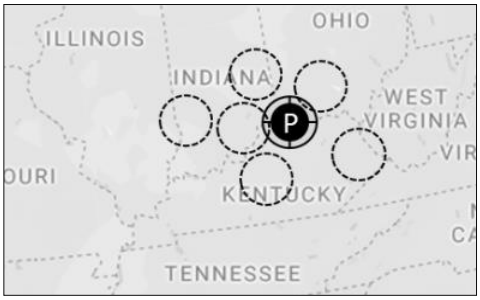
The additional risks, rewards, and longer care episodes (e.g., rehabilitation) contemplated by alternative payment initiatives represent an excellent opportunity for private equity firms. In partnering with premier orthopedic groups, investors can deploy the capital and financial expertise needed to maximize value-based payment programs.

In sum, the future requires orthopedists to see more patients in a more complex environment. Fortunately, that landscape also offers great opportunity. Private equity's vision is to help orthopedic groups meet these challenges, offering greater rewards to physicians and their patients.

Platform Growth and Market Development

The PPM Management Company Strategy

The predominant private equity acquisition strategy is best defined as "Platform-Growth". Executing this strategy with success requires the acquisition of a large practice or practices which act as a foundation. Those platforms are expanded through "Add-On" acquisitions of medium and small practices and ASCs within a geographic region.



We consider large practice acquisitions to be the key driver of market expansion and a primary indicator of future investment in medium and small practices in a geographic area. A platform practice is defined by a variety of factors, determined in part by the buyer's preferences. Our market analysis simplifies this and considers the acquisition of practices with five or more physicians. We feel this is a strong indicator of overall platform acquisition activity.

Orthopedics and Neurosurgery

Private equity interest in orthopedic and neurosurgery practices is in the early stage. To-date, only six platform acquisitions have occurred. However, market fundamentals and increasing interest in this specialty suggests continued growth momentum in 2019 as more firm enter, new geographies and platform practices are pursued, and add-ons to existing platforms are sought.

Private Equity Investors in Orthopedics

Private equity firms usually create a subsidiary Practice Management Company within their portfolios to acquire and manage gastroenterology practices and ancillary businesses. Most transactions include some equity ownership in that parent management company.

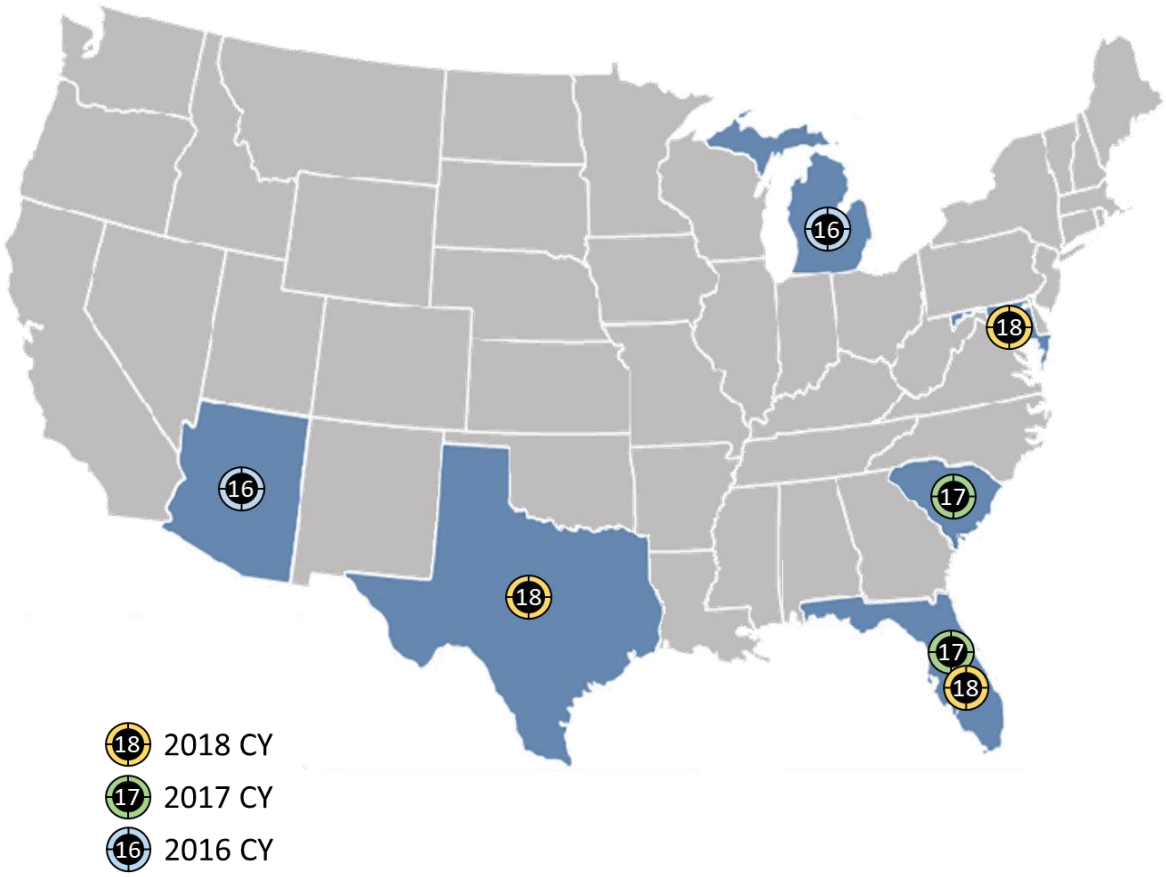
The combination of the private equity firm names and the new practice management company names can be confusing and is simplified below.

Private Equity Firm	Orthopedic Management Company
FRAZIER HEALTHCARE PARTNERS (LEAD) PRINCETONVENTURES	THE CORE INSTITUTE
CANDESCENT PARTNERS (LEAD) EAGLE PRIVATE CAPITAL Harbert Management Corporation LiveOak RESOLUTE CAPITAL PARTNERS C3 CAPITAL	SOUTHEASTERN SPINE INSTITUTE AND AMBULATORY SURGERY CENTER
VARSITY HEALTHCARE PARTNERS	THE ORTHOPAEDIC INSTITUTE
Atlantic Street Capital	Ortho Bethesda RESTORING FUNCTION
BOWRIVER CAPITAL	PRECISION SPINE CARE
TRIVE CAPITAL	FLORIDA SPINE & JOINT INSTITUTE

Geographic Investment Activity

The map below depicts the development status of the private equity/orthopedic and neurosurgery consolidation that began with one private equity firm's pioneering investment in 2016. Today there are twelve private equity firms actively investing in orthopedics and neurosurgery practices with varying strategies and geographic target areas.

The map below shows the early investment activity across the United States by state and year. The success of these early investment will drive increased activity. As can be seen, there are many opportunity areas available to firms seeking to enter this specialty. Those that have already entered will be evaluating their current and future success probability and seeking to grow if that outlook is promising.



Private Equity Investor Profiles

ABOUT THE COMPANY

The CORE Institute aims to offer excellent patient care across the entire orthopedics and neurosciences spectrum. Notably, CORE is a leader in payor-reform initiatives and works closely with payors and third parties to facilitate new iterations of value-based care. The company is also deeply engaged in the research and development of care management protocols and associated software.

GROWTH PROSPECTS

We expect The CORE Institute to grow organically and via acquisition. That activity will include new practice partnerships and the development of new technology and payment systems.

ABOUT THE INVESTOR

Founded in 1991, Frazier Healthcare Partners is a leading provider of growth and venture capital to emerging healthcare service, medical product and biopharma companies. With nearly $3.0 billion under management, Frazier has invested in over 170 companies ranging from early-stage venture investments to buyouts of profitable lower-middle market companies. For 26 years, Frazier has established itself among entrepreneurs and experienced executives as the preferred partner to help create and rapidly grow market leading healthcare companies. Frazier has offices in Seattle, Wash., and Menlo Park, Calif., and invests broadly across the United States, Canada and Europe. Note: Frazier Healthcare Partners is the lead private equity investor. Princeton Ventures of Princeton NJ is also an investor.

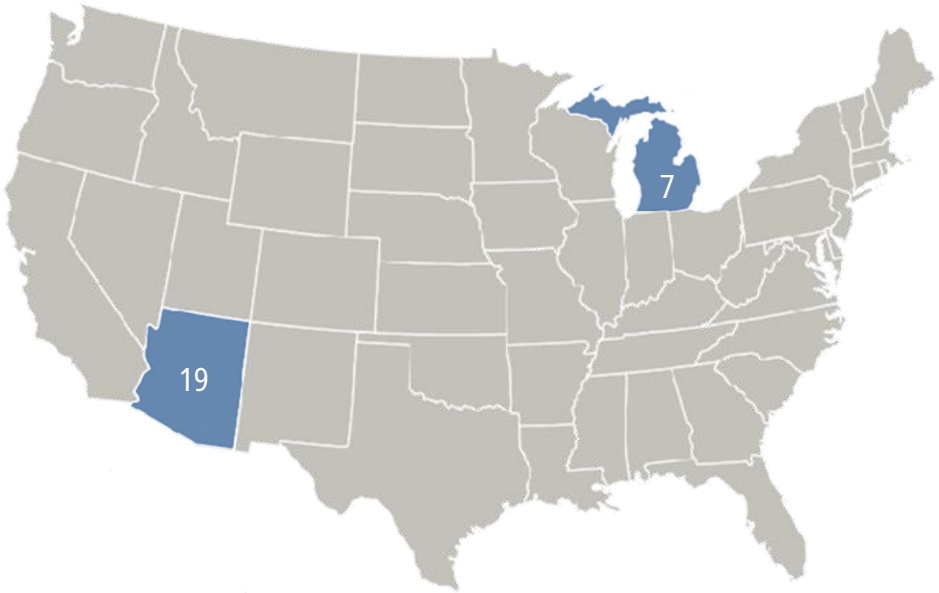
PORTFOLIO LOCATIONS

'16 Year Founded

26 Locations

43 Physicians

02 States



DATE OF INVESTMENT: December 2016

SPECIALTY FOCUS: Orthopedic Surgery and Neurology

HEADQUARTERS: Phoenix, Arizona

ABOUT THE COMPANY

Southeastern Spine Institute ("SSI") provides high quality, comprehensive spine care and is the largest medical practice in South Carolina. SSI is not an orthopedic practice, but a spine practice with physicians encompassing the continuum of spine care. The practice has its own Ambulatory Surgery Center.

GROWTH PROSPECTS

We expect SSI to grow organically and via acquisition throughout the Southeastern Untied States.

ABOUT THE INVESTOR

Candescent Partners is a Boston-based private equity firm that invests in the acquisition, growth and recapitalization of lower middle market companies in healthcare services, business services, software and consumer products and services. Steve Jenks and Sandy McGrath founded Candescent in 2008. Steve Sahlman joined the partnership in 2009. Candescent invests in businesses with annual EBITDA between $2 and $8 million and enterprise values between $10 and $75 million. Note: Frazier Candescent Partners is the lead private equity investor. Eagle Private Capital, Herbert Mezzanine Partners, Resolute Capital Partners, C3 Capital and LiveOak Growth Capital are also investors.

PORTFOLIO LOCATIONS

'17 Year Founded

01 Locations

12 Physicians

01 State

DATE OF INVESTMENT: April 2017

SPECIALTY FOCUS: Spine, with physicians trained in Orthopedic Surgery, Interventional Pain Management, Neuroradiology, and Neurosurgery

HEADQUARTERS: Mount Pleasant, South Carolina

ABOUT THE COMPANY

The Orthopaedic Institute ("TOI") is a leading provider of integrated orthopedic surgical care and ancillary patient treatment services across North Central Florida. The practice has six clinic locations and two ambulatory surgery centers

GROWTH PROSPECTS

We expect TOI to grow organically and via acquisition throughout the Southeastern United States, especially within Florida.

ABOUT THE INVESTOR

Varsity Healthcare Partners (VHP) is a lower middle-market private equity investment firm focused on partnering with founders, entrepreneurs and management teams to build leading healthcare services companies. VHP has been successful in developing and executing a tailored value-creation plan, in Partnership with the leadership of each company, that typically emphasizes an appropriate investment in infrastructure followed by an aggressive organic and acquisition growth strategy. VHP draws upon its extensive healthcare industry experience and relationships, as well as its hands-on partnership approach to effectively drive growth and maximize value.

PORTFOLIO LOCATIONS

'17 Year Founded

10 Locations

34 Physicians

01 State

DATE OF INVESTMENT: November 2017

SPECIALTY FOCUS: Orthopedic Surgery, Medical Orthopedics, Neurology, Diagnostic and Interventional Radiology

HEADQUARTERS: Gainesville, Florida

ABOUT THE COMPANY

Founded in 1965, OrthoBethesda is a leading provider of comprehensive musculoskeletal care to patients in the greater Washington, DC market. The practice is divided into four Centers of Excellence - Washington Joint Institute, providing treatment to patients with debilitating arthritic joint conditions; Washington Shoulder Institute, focusing on the demands of patients suffering from various shoulder-related ailments; Washington Spine and Scoliosis Institute, offering state of the art management of complex spinal conditions; and OrthTraumaBethesda, providing advanced comprehensive care of orthopedic trauma cases.

GROWTH PROSPECTS

We expect OrthoBethesda to grow organically and via acquisition throughout the Mid-Atlantic region.

ABOUT THE INVESTOR

Atlantic Street Capital is a private equity firm that invests in middle market companies with between $4 million and $15 million in EBITDA. The firm invests in fundamentally sound companies that will benefit from capital investment and value-adding strategic and operational initiatives. Atlantic Street Capital's investment team are hands-on Innovators who work with management to unlock their business' underlying. The firm is currently making investments in Atlantic Street Capital III, LP.

PORTFOLIO LOCATIONS

'18 Year Founded

01 Locations

14 Physicians

01 State

DATE OF INVESTMENT: September 2018

SPECIALTY FOCUS: Orthopedic Surgery

HEADQUARTERS: Bethesda, Maryland

PRECISION SPINE CARE

ABOUT THE COMPANY

Precision Spine Care utilizes a "Center of Excellence" approach to multidisciplinary care management including surgery, pain management, and rehabilitation. The practice treats patients in seven different facilities across East Texas.

GROWTH PROSPECTS

We expect Precision Spine Institute to grown organically and via acquisition across Texas and the Central United States.

ABOUT THE INVESTOR

BOW RIVER CAPITAL

Founded in 2003, Bow River Capital is a private alternative asset management company based in Denver, Colorado, with Buyout, Real Estate, Software Growth Equity and Energy Fund platforms. The Bow River Capital platforms focus on the lower middle market across a geographic area referred to as Bow River's Rodeo Region®, which encompasses the Rocky Mountains and surrounding states. Collectively, Bow River Capital has deployed capital into diverse industries, asset classes and across the capital structure.

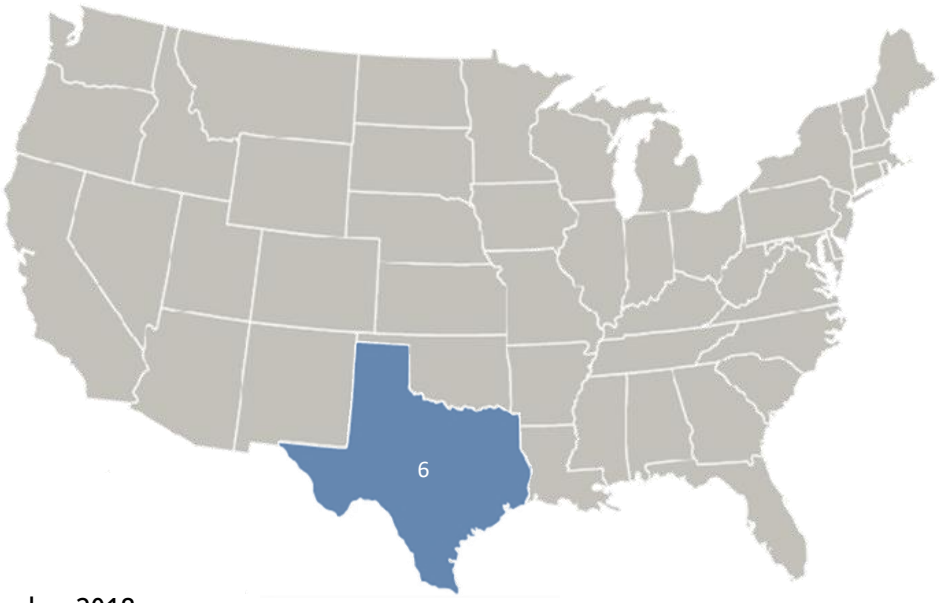
PORTFOLIO LOCATIONS

'18 Year Founded

06 Locations

13 Physicians

01 State



DATE OF INVESTMENT: November 2018

SPECIALTY FOCUS: Spine, including Neurosurgery, Orthopedic Surgery, and Interventional Pain Management

HEADQUARTERS: Tyler, Texas

ABOUT THE COMPANY

Florida Spine and Joint Institute focuses on comprehensive spine and orthopedic care, with fourteen locations across Southeast and Central Florida. The practice includes surgical and non-surgical specialists, including chiropractic and interventional pain management services.

GROWTH PROSPECTS

We expect Florida Spine and Joint Institute to grow organically and via acquisition across Florida and the Southeastern United States. expects Precision Spine Institute to grown organically and via acquisition across Texas and the Central United States.

ABOUT THE INVESTOR

Trive Capital is a Dallas, Texas based private equity firm managing over $2 billion in capital. Trive focuses on investing equity and debt in what it sees as strategically viable middle-market companies with the potential for transformational upside through operational improvement. The Trive team is comprised of seasoned investment professionals who have been involved in over 70 middle-market transactions representing in excess of $6 billion in revenue across Trive's targeted industry sectors and situations.

PORTFOLIO LOCATIONS

'18 Year Founded

14 Locations

07 Physicians

01 State

DATE OF INVESTMENT: Dece

SPECIALTY FOCUS: Spine and Orthopedics, including Interventional Pain Management and Chiropractic

HEADQUARTERS: Boca Raton, Florida

Conclusion

We expect accelerating transaction activity in 2019 as new investors enter the orthopedic and neurosurgery space. The existing platform companies above will also acquire "add-on" smaller practices, and perhaps additional practices in new geographies.

We expect to have many conversations with interested orthopedic groups and private equity investors throughout the year and will be seeking opportunities to share information with all parties and facilitate transactions of interest.

Contact

To learn more about our healthcare investment banking services or to discuss your specific situation with no obligation please feel free to call:

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Direct: 615-477-4741

We are happy to share our knowledge and help you understand your options. All conversations are strictly confidential.

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