



DealReader

Healthcare Valuations

Winter 2016

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A Review of Lincoln's Valuations & Opinions Group

Welcome to the inaugural edition featuring aggregate valuation data and trends for five core segments of the Healthcare Industry. This publication, published together by Lincoln International's Healthcare and Valuations & Opinions Groups (VOG), offers insights on valuation topics of interest to financial executives, business owners, and investment and valuation professionals focused on and active in the healthcare industry. The presented, aggregated financial and valuation information are segmented by:

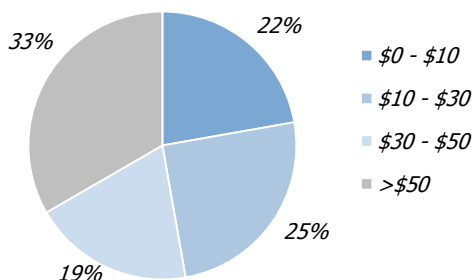
- Healthcare Services
- Other Services
- MedTech
- Pharma
- IT

Dataset Review and Segment Definitions

Since 2014, Lincoln International has valued 203 unique healthcare companies. As of Q3 2016, Lincoln’s VOG database, which tracked 825 companies in total, contained valuation and financial data on a total of 84 healthcare companies with the following summary characteristics:

- **Company Size (LTM EBITDA)**
 - Mean: \$47.1 million
 - Median: \$34.7 million
- **Company Ownership:**
 - Private: 94%
 - Public: 6%

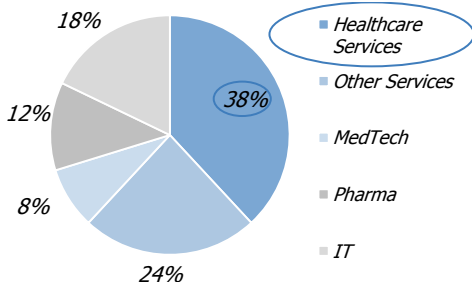
Portfolio Companies by Size



Based on several criteria, including business descriptions and sector classification parameters, these 84 companies were further sub-aggregated into the following 5 core segments of healthcare:

- Healthcare Services (provision of healthcare services): 32 companies
- Other Services (clinical and non-clinical outsourced services): 20 companies
- MedTech (manufacturers of devices, equipment and products): 7 companies
- Pharma (manufacturers of pharma, biotech, generic and OTC products): 10 companies
- IT (developers and suppliers of healthcare IT hardware and software): 15 companies

Portfolio Companies by Industry



Overarching Takeaways

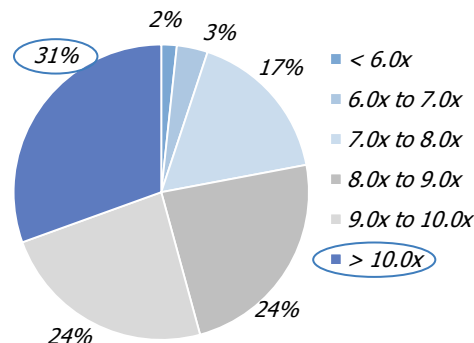
Based on the data and analyses shown in the next several sections, we reach these high-level conclusions for the healthcare industry:

- Strong valuation multiples relative to many other industries (close to 9.0x vs. 8.2x for the total multi-industry Lincoln VOG database)
- Total leverage multiples of 4.8x are similar to most other industries
- More attractive industry EBITDA margins than most other industries tracked by Lincoln’s VOG (21% vs. 20% for the total Lincoln VOG database across all industries)
- A higher percentage of healthcare companies are showing year over year revenue and EBITDA growth vs. other industries

Valuation Takeaways

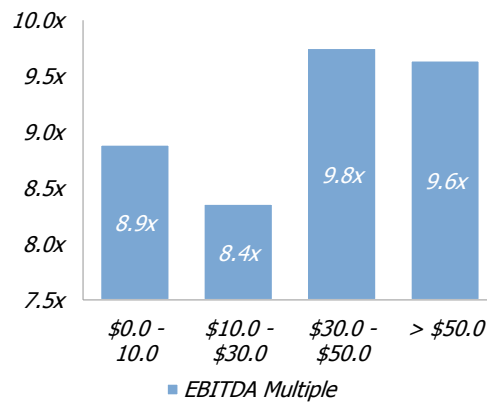
Current Multiples: The median Enterprise Value/LTM EBITDA multiple for the entire healthcare dataset based on Q3 2016 is 9.0x based on Lincoln VOG’s valuation-analytical framework. The following chart shows the percentage distribution of the healthcare dataset across certain ranges of EBITDA multiples:

Portfolio Companies by EBITDA Multiple

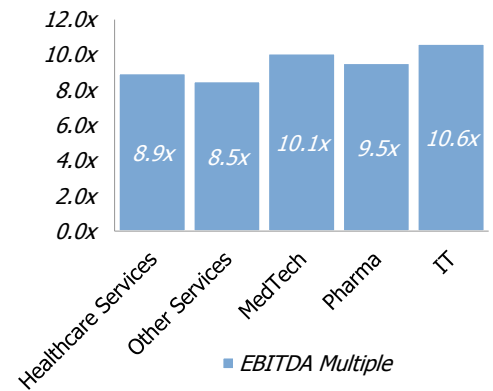


For the most part, EBITDA multiples are higher for larger healthcare companies and higher for the more technology/pharma related segments of healthcare. See the following charts:

EBITDA Multiples by Size

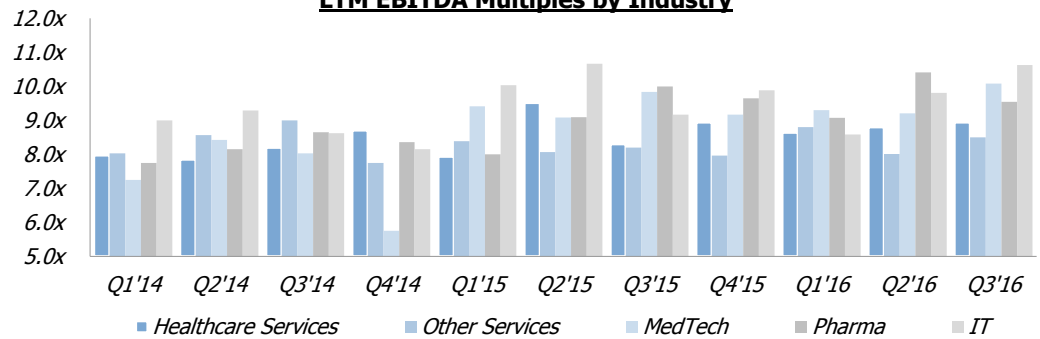


EBITDA Multiples by Industry



Historical Multiples. Since January 2014, the median healthcare multiple for our dataset has been 8.8x, with the medtech, pharma and IT segments demonstrating medians above 9x. The following chart provides a quarterly breakdown of LTM EBITDA multiples for each of the 5 healthcare segments and the 2014-Q3 2016 average and median multiples:

LTM EBITDA Multiples by Industry

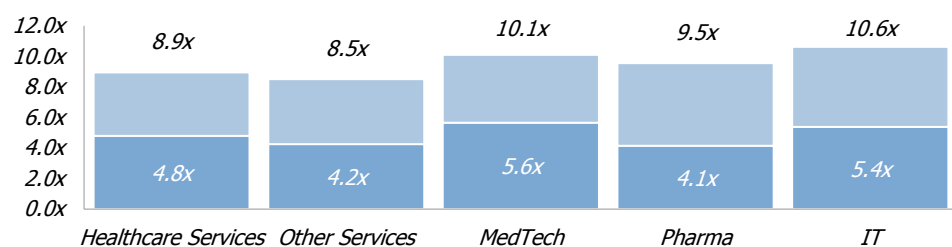


	2014 – Q3'16 EBITDA Multiples	
	Average	Median
Healthcare Services	8.5x	8.6x
Other Services	8.3x	8.2x
MedTech	8.7x	9.2x
Pharma	9.0x	9.1x
IT	9.4x	9.3x
Total	8.7x	8.8x

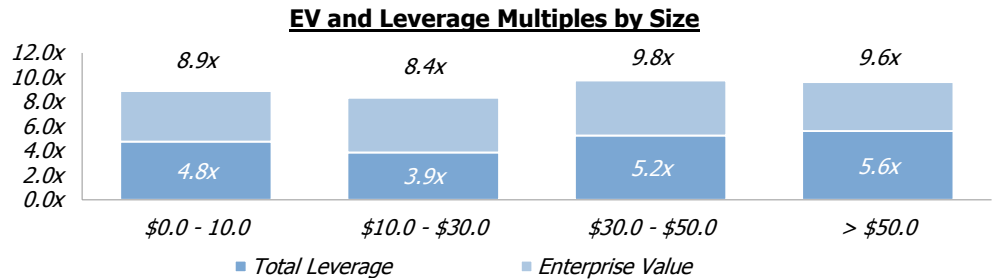
Leverage Levels

Current Multiples: Current total debt leverage multiples for healthcare, based on Q3 2016, are in the range of 4.1x to 5.6x, depending on the healthcare sector. The following chart repeats the valuation multiple chart from above, but now also includes the debt multiples:

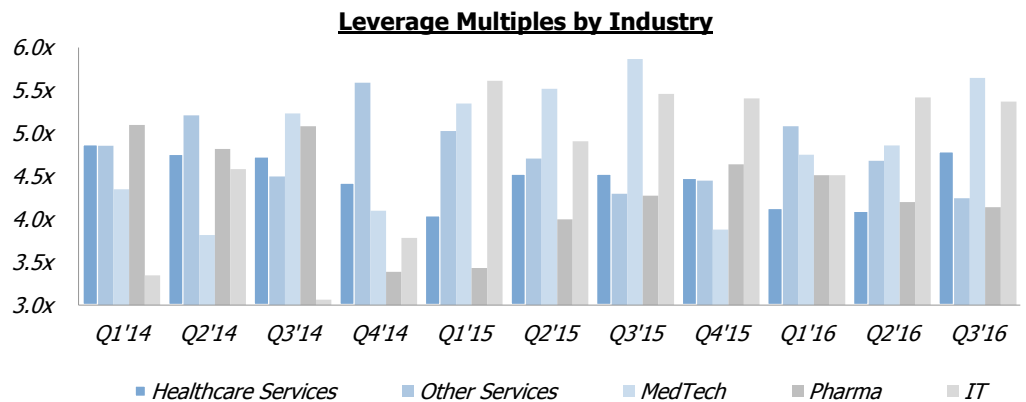
EV and Leverage Multiples by Industry



Depending on company EBITDA size, typical current leverage multiples range from 3.9x to 5.6x, as demonstrated by the following chart (again showing the above valuation chart with leverage multiples added in):



Historical Multiples: Median leverage multiples since 2014 have been around 4.7x for the healthcare industry, supported by the following data by healthcare segments:



	2014 – Q3'16 Debt Multiples	
	Average	Median
Healthcare Services	4.5x	4.5x
Other Services	4.8x	4.7x
MedTech	4.9x	4.9x
Pharma	4.3x	4.3x
IT	4.7x	4.9x
Total	4.6x	4.7x

EBITDA Performance

The median LTM EBITDA margin for the Lincoln-tracked healthcare companies has been 21% since January 2014. While the services side of healthcare is running at an 18% median margin, the more technology and pharma oriented sectors are showing 22-27% margins. The following tables provide further detail:

LTM EBITDA Margins by Size

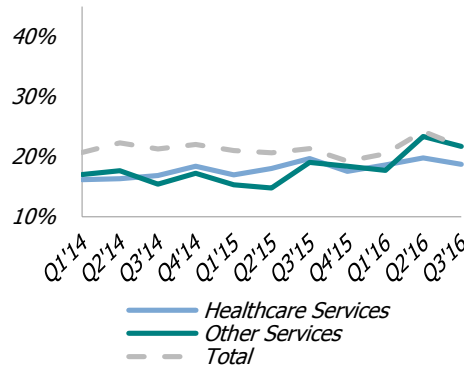
	Historical	
	Average	Median
\$0 - \$10	18%	18%
\$10 - \$30	22%	23%
\$30 - \$50	17%	17%
> \$50	27%	27%
Total	21%	21%

LTM EBITDA Margins by Industry

	Historical	
	Average	Median
Healthcare Services	18%	18%
Other Services	18%	18%
Services Subtotal	18%	18%
MedTech	25%	25%
Pharma	30%	27%
IT	23%	22%
Tech Subtotal	26%	25%
Total	21%	21%

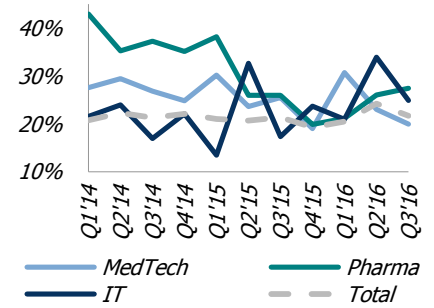
LTM EBITDA margins for the services side of our tracked healthcare companies have been trending upward since January 2014, as evidenced by the following chart, but remain below the median margins of the entire healthcare dataset:

LTM EBITDA Margins by Industry



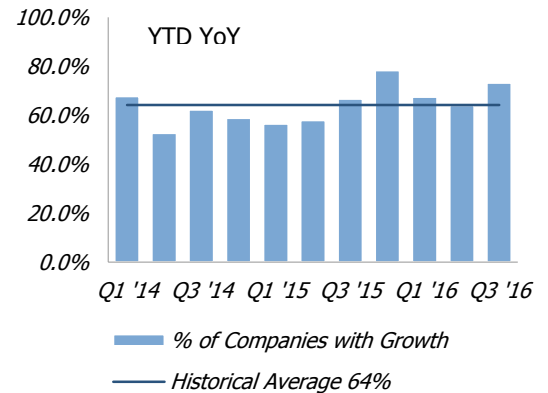
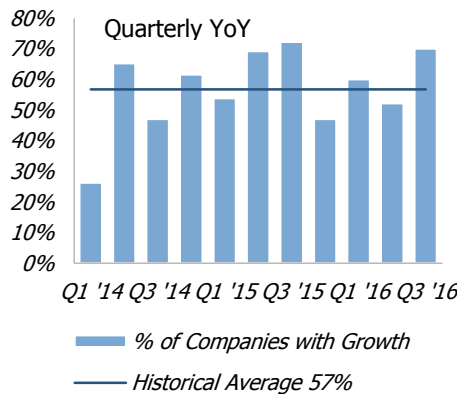
LTM margin trends for the other three segments (devices, pharma and IT) have been choppy, with IT showing slightly improving margins on a regression line basis, while medtech and pharma are showing somewhat declining margins, as evidenced by this chart:

LTM EBITDA Margins by Industry

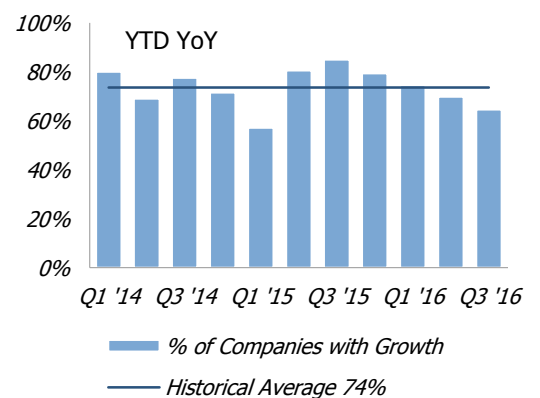
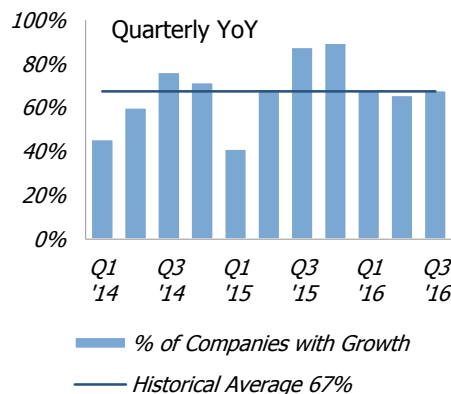


In the third quarter of 2016, the Lincoln-tracked healthcare companies showed compelling EBITDA growth trends, with 70% and 73% of companies showing quarterly and YTD year-over-year growth, respectively, vs a three-year average of 57% and 64%, respectively. However, revenue trending has seen some declines or flatness in recent quarters: in Q3 2016, 68% and 65% of healthcare companies demonstrated quarterly and YTD year-over-year growth, respectively. However, in prior quarters, 70-85% of companies showed YTD year-over-year growth, so 65% does represent one of the lowest data points since January 2014. The four charts below provide further detail:

EBITDA Growth - % of Companies with Growth



Revenue Growth - % of Companies with Growth



Global Industry Groups

Aerospace & Defense
Automotive & Truck
Building &
Infrastructure
Business Services
Chemicals
Consumer
Distribution
Electronics
Energy & Power
Financial Institutions
Food & Beverage
Healthcare
Industrials
Packaging
Technology & Media

Global Locations

Amsterdam
Beijing
Chicago
Dallas
Frankfurt
London
Los Angeles
Madrid
Milan
Moscow
Mumbai
New York
Paris
São Paulo
Tokyo
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About Lincoln International

Lincoln International specializes in M&A advisory, debt advisory, and private capital raising and restructuring advice on mid-market transactions. The firm also provides fairness opinions, valuations and joint ventures/partnering services on a wide range of deal sizes. With 18 offices in the Americas, Asia and Europe, Lincoln International has strong local knowledge and contacts in key global economies.

Lincoln's Global Healthcare Group

- Leading practice with 40 completed transactions since January 2015; #1 M&A advisor in 2015 for services & medtech (by number of deals with EV<\$500 million)
- Over 20 professionals worldwide
- Coverage areas: Provider Services, Process Outsourcing, Managed Care, Medical Device & Outsourcing, Diagnostics & Research Tools and Pharmaceutical Services

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Lincoln International Valuations & Opinions Group

- Serving over 100 clients in 2016, including BDCs, private equity groups and corporations
- Providing valuations on over 3,500 portfolio companies
- Over 25 professionals

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