Provident Perspectives: An Update on Investment & Consolidation in Cardiology

Examining recent developments and trends in the cardiology space in the early stages of private equity investment

Introduction

In 2021 and 2022, the cardiology market experienced a surging wave of M&A activity from both strategic and financial partners as consolidators look to capitalize on the industry tailwinds and build market-leading platforms. With the growing presence of cardiovascular disease driving an increased need for care, an emphasis on shifting to value-based payment models, and a continued shift to the outpatient setting, cardiology physician practices are attracting strong healthcare investor interest. Industry tailwinds and demand determinants create encouraging growth opportunities for nationally scaled and regional cardiology groups alike.

Provident anticipates that the next few years will be fueled by increased private-equity led consolidation as cardiology follows a similar trend to other physician specialties such as gastroenterology, urology, orthopedics, and women's healthcare. With an estimated market size of $50.9 billion, private equity investment has only scratched the surface in the specialty.

According to the Association of American Medical Colleges, there are currently just over 22 thousand cardiovascular specialists practicing in the U.S., increasing by over 5% per year(1). While less than 30% are currently estimated to be in private practice, the market size of independent cardiologists is comparable to outpatient physicians in both gastroenterology and urology, which have each seen strong outcomes from well over a dozen private equity-backed Management Services Organizations (MSOs). With the shift of care to the outpatient clinic and ASC settings, hospital-employed cardiologists are starting to follow suit, slowly increasing the pool of private practice physicians. Market sizing must also consider cardiology practices' leverage of advanced practice providers (APPs), with groups typically using between a two-to-one to one-to-one ratio of physicians to APPs, as well as vascular surgeons that round out a diversified practice.

With approximately a dozen platforms already established and over 30 transactions combined in 2021 and 2022, cardiology consolidation in its early stages is outpacing the precedent set by other physician specialties. This momentum is expected to be sustained as there are a number of practices pursuing deals and several investors seeking platform investments into the specialty.

As a follow up to Provident's Perspective on cardiology published in 2020, we will reflect on recent activity in the industry and our view of where this consolidation trend is heading. The goal of this whitepaper is to provide guidance to cardiologists and other industry participants regarding the current state of M&A activity within the sector, key transaction considerations for physicians and investors, and the various models that platforms are pursuing across the market.

(1) Per the American Academy of Medical Colleges
(2) Transaction statistics based on research completed by Provident; excludes non-publicly available transactions

Surveying the Cardiology Services Landscape

Why Are Investors Interested in Cardiology?

1. Shift Towards Ambulatory Care

- Cardiovascular procedures have been increasing in prevalence in outpatient care settings, driven by lower costs, efficient care and growing acceptance from CMS
- Cumulatively from 2019 to 2021, 25 cardiac catheterization and coronary intervention codes were added to the Medicare ASC approved list
- Payors are also incentivized to direct patient care into the lowest cost setting.

2. Significant Addressable Market

- About 659,000 people in the United States die from heart disease each year—1 in every 4 deaths—according to the CDC(2)
- The percutaneous coronary intervention market is estimated at 900,000 cases annually, with Medicare payments of $10 billion(3)
- Only approximately 22,000 cardiologists are active in the United States leaving cardiologists in high demand

3. Growing and Aging Population

- The demand for cardiovascular services continues to grow, driven by an increasing prevalence of cardiovascular disease and an aging population
- Direct costs in the US are estimated to exceed $800 billion by 2030
- 20% of the population will be 65 years or older by 2030 and the number of individuals that are 85 years or older is estimated to triple by 2050

4. Significant Industry Fragmentation

- Cardiology groups predominantly consist of 1-5 provider practices with roughly 44% of practices having only 1 provider.(1) These groups have struggled to differentiate and adapt to the changing healthcare market
- Private equity-backed platforms seek to provide shared back-office resources across independent practices to leverage economies of scale, while providing capital to practices for growth

5. Meaningful Structural Change in Employment

- More than 70% of cardiologists are currently employed by health systems; this number is likely to decrease as more cardiologists return to the outpatient setting for autonomy and enhanced income opportunities
- Cardiology practices owned by health systems are increasingly evaluating the opportunity to leave the health system and open independent ASCs and community-based practices

6. Shift Towards Value-Based Care

- Relevant to other areas of specialty medicine, quality cardiology practices will be uniquely positioned to benefit from an industry shift towards value-based care given the opportunity to wholistically manage patient care and outcomes while mitigating patients needing inpatient care
- Cardiology practices often have a Medicare heavy payor mix and CMS is looking for opportunities to transition to value-based models

The Benefits of a Private Equity Partnership to Independent Practices

Collaboration	Leverage with Payors	Technology Updates	Acquisitive Growth	Operational Expertise
Practices gain access to a larger physician network to share best practices, clinical insights, and integrated care networks	Increased size and scale allows for the opportunity to get a seat at the table with payors and explore VBC relationships	Platform level groups gain early access to new technology and stay at the cutting edge of cardiovascular services	Outside capital and resources will help practices amplify growth through acquisitions to build regional density	Private equity investors will add management and operational personnel with experience scaling physician groups

The Beginning Stages of Private Equity Investment

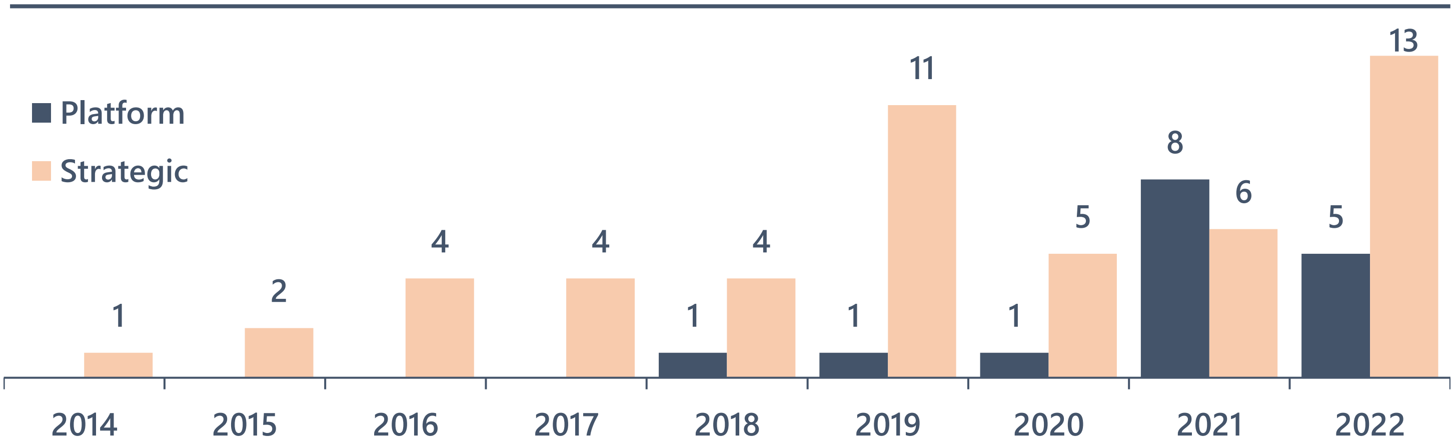
Evolution and Surge of Private Equity Activity

2021 marked the start of substantial M&A activity in the space, which coincided with 17 CPT codes being added for use in outpatient settings. This shift presented cardiologists with the opportunity to move elements of their care out of the hospital and into the OBL and ASC settings in states that don't require a Certificate of Need (CON), relieving their dependence exclusively on hospital operating room space for procedures. Prior to 2019, most deal activity occurred between hospital systems seeking to bolster specialty services and practices looking for better rates and administrative support. Given the factors that are relieving physicians' reliance on hospital employment, however, the industry is seeing an increased migration to the private practice setting among cardiologists which presents employment or "acqui-hire" opportunities for PE-backed platforms.

The first evidence of PE investment in the cardiology space occurred in 2020 when Varsity Healthcare Partners founded Partners First Cardiology, kicking off a new trend of private-equity investment in the cardiology industry. In 2021, this trend began to take off with eight private-equity platform investments closing in the calendar year. The funds deploying the capital consist primarily of healthcare services-focused investor groups with a successful track record of building scalable physician practice management businesses in other specialties. For initial platforms, private equity firms are looking for groups of varying scale that have developed leading positions in the markets the practice serves with well-developed ancillary services. Examples include Ares Management's partnership with Pima Heart to form US Heart and Vascular and Webster Equity's partnership with Cardiovascular Medicine of the Quad Cities to form Cardiovascular Associates of America.

The early onset of platform acquisitions since 2021 has caused a ripple effect as more investors and physician owners see PE traction in the sector, with practices rallying around the opportunity to remain independent of the health system. Early focus has been concentrated in non-CON states where ASC development has fewer regulatory hurdles (Texas, Arizona, and Florida, to name a few states). Provident expects that private equity-backed groups will consolidate a significant portion of the independent cardiology market over the next 5 years, with an eventual shift in focus over the next 2-3 years to bringing on hospital employed groups or groups with hospital PSAs.

Cardiology Private Equity Deal Activity[1]



[1] Transaction statistics based on research completed by Provident; excludes non-publicly available transactions

Overview of the Initial Cardiology Platforms

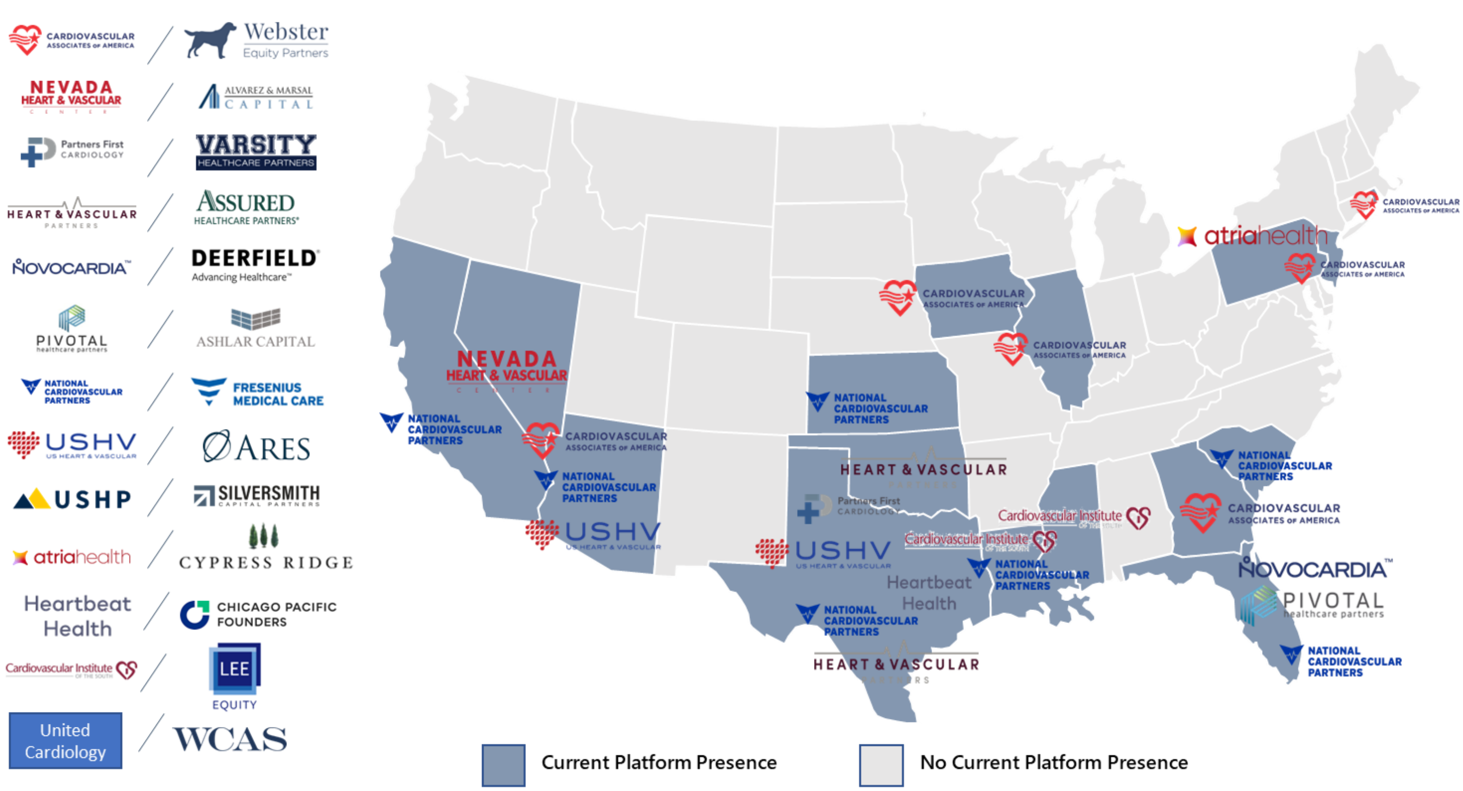
An Emphasis on Regional Platform Activity

M&A activity has accelerated in cardiology throughout 2022 with several notable deals closed and others in process. Webster's platform, CVAUSA, has been the most active with recent regional platform transactions in Arizona, Georgia, Illinois, and New Jersey. CVAUSA prioritizes building an integrated care model within its partner practices and layering on strategic ancillary offerings such as EP and diagnostic imaging.

As 2021 brought about significant platform investment, funds have put significant amounts of capital behind their platform practices to begin executing on their growth playbooks. 2022 has been characterized by 'flag planting' as the existing platforms aggressively compete for sizeable regional practices. These regional platforms will be combined with other local practices to build regional density – consolidators will typically identify a practice or geography of interest and look to build around it via organic and acquisitive growth. Building regional density allows platforms to position for improved payor contracting and value-based care initiatives, increase brand awareness, leverage best practices, and share ancillary services. While many cardiologists in the past transitioned from single or small-group practices to larger multispecialty groups or hospital employment, choosing to partner with private equity investors provides the opportunity for those physicians to remain owners in a regional or national platform with a significant level of local autonomy.

As a highly fragmented industry, Provident expects add-on investment activity to be very active in the coming years as platforms look to add physician sub-specialty depth, increase regional density, and capture market share from health systems.

Private Equity-Backed Platform Coverage[1]



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Cardiovascular Platform Strategies Across Varying MSAs

Early indications in the sector are that platforms are taking a customized approach to growth in each market they pursue given the uniqueness in cardiology care across different MSAs.

Hospital Reliant vs. Hospital Independent

There is a spectrum across different markets ranging from cardiology practices heavily reliant on their local health systems for referrals and income, to groups who have developed models with minimal hospital reliance outside of inpatient procedures. Practices with minimal hospital reliance have developed strong independent referral networks with local PCPs, patient access through offering same-day appointments, and investment in physician-owned operating space in the form of office-based catheterization labs and ASCs. Conversely, practices in other markets may be tied in more closely with health systems and receive meaningful income from medical directorship stipends, while serving as the preferred referral provider and outsourced cardiology department of the health system. Both models have their merits depending on the market.

Investing Across the Cardiology Services Spectrum

Cardiology practices with a diverse specialty and ancillary service mix present attractive partnership opportunities for investors. Interventional cardiologists provide more procedure-based care which includes endovascular surgery and catheterization techniques. These procedures tend to be higher reimbursed and may be done in a hospital or preferably the OBL or ASC setting if state licensing allows. General cardiologists deploy a more holistic approach to cardiac care including preventative medicine and diagnostic imaging. Investors value the procedure-based aspect of practices with vascular and endovascular care given the earnings upside related to the development of outpatient facilities, while cardiology services provided in the clinic generates the patient base that leads to internal referrals to interventionalists and electrophysiologists. Most platforms ultimately want to develop a one-stop-shop for cardiovascular care in the markets they serve.

Ancillary Service Development & Income Repair

Outpatient Facility Expansion: ASCs and OBLs provide physicians with the opportunity to collect incremental facility fees that historically have exclusively benefited the hospital. Facility development is easier in non-CON states, which is where a substantial portion of PE activity has occurred to date. As CMS grants approval for more procedures to be done in the outpatient setting and CON states open the possibility of building cardiac ASCs, Provident expects endovascular facilities to be a major growth driver for the industry in the coming years.

Imaging Services: CT and PET imaging services are critical for cardiology platforms due to the high imaging utilization for patients with cardiovascular disease. Interventional radiology procedures such as nuclear imaging also provide patients an alternative to surgery and provides a less-invasive approach to diagnosis. Reimbursement for advanced imaging services has provided an attractive margin for cardiology practices.

Wellness Services: An increasing trend within cardiology is the addition of weight loss and wellness programs due to the co-occurring nature of obesity and cardiovascular disease. This includes intensive cardiac rehab and nutrition that complement the cardiology offering. This preventative offering is evidence of cardiology’s effort towards system-wide cost containment and will benefit value-based care payment models.

Structuring Considerations for Cardiology Practice Owners

When considering taking on investment from private equity or joining an existing platform, it is important for physician owners that key deal structuring points are addressed upfront. Below are several key concerns Provident often hears from our clients and potential mitigating points to address in deal structuring.

Critical Deal Considerations for Physician Owners

1 Clinical Autonomy

Concern
- Partnership or acquisition might jeopardize clinical autonomy for all providers post-transaction

Mitigation
- Experienced PPM investors will develop platforms with governance structures that legally preserve clinical autonomy

2 Lack of Representation

Concern
- Loss of voice in decision-making for the business

Mitigation
- Most platforms preserve the local boards of their partner practices and develop regional or national clinical boards for key physicians to have a voice
- Platform practices can also be granted a seat on the board of directors of the MSO

3 Partnership-Track Physicians

Concern
- Partnership-track physicians' perception that there is no-longer a path to partnership post-transaction

Mitigation
- Partners will look to align incentives with key associate physicians by developing a path to partnership through a buy-in and/or profit interests
- Practices often set aside a portion of transaction proceeds for physicians that are near-term partners

4 Loss of Future Income

Concern
- Giving up future compensation which disproportionately impacts shareholders with the longest career horizons

Mitigation
- Existing platforms will highlight opportunities for income repair that will partially or fully offset future foregone compensation
- Young shareholders have the ability for multiple "bites-of-the-apple" upon subsequent transaction events due to roll-over equity

Characteristics of a Premium Cardiovascular Services Platform

Highly Defensible Position in Attractive Local Market with an Eminent Regional Reputation	Proven Ability to Recruit and Retain Top-Tier Talent	Comprehensive Suite of Cardiovascular Service Offerings (Interventional Cardiology, Electrophysiology, etc.)
Growth Potential, Including Demonstrated Ability to Execute on Acquisitive and De Novo Growth	Fully Developed Infrastructure, Centralized Corporate Functions, and Solid Employee Roster	ASC and/or OBL Ownership to Capture Incremental Facility Fees

Diversified Ancillary Service Offerings (Cardiac Rehab, PET/CT,, etc.)

Select Cardiology Services Transactions and Valuation Outlook

Private equity investment and deal activity in the cardiology specialty has reached new heights with 35 transactions in the U.S. since January 2020 and several more deals in process. With a market size expected to grow to over $56 billion by 2025 and significant market fragmentation, the cardiology industry is a ripe target for consolidation. Provident is seeing transaction activity unfold in the early innings at a pace that is much faster than other physician subspecialties as the private equity model is resonating with cardiologists that view these partnerships as an opportunity to preserve private practice and continue to out-compete the health systems over the long-term. Below is a summary of transaction activity through November 2022.

Date	Seller[(1)]	Buyer	Acquisition Type
Dec-22	United Cardiology	Welsh Carson Anderson Stowe	Platform
Nov-22	Southwest Cardiovascular Associates	Cardiovascular Associates of America	Strategic Add-on
Nov-22	Cardiovascular Institute of New England	Cardiovascular Associates of America	Strategic Add-on
Nov-22	Heart and Vascular Care	Cardiovascular Associates of America	Strategic Add-on
Nov-22	Cardiology Institute of the South	Lee Equity Partners	Platform
Oct-22	The Heart House	Cardiovascular Associates of America	Strategic Add-on
Oct-22	Chicago Cardiology Institute	Cardiovascular Associates of America	Strategic Add-on
Sep-22	Advanced Cardiovascular Specialists	Heart and Vascular Partners	Strategic Add-on
Sep-22	Heartbeat Health	Chicago pacific Founders	Platform
Aug-22	Atria Health	Cypress Ridge	Platform
Aug-22	Pahrump Cardiology	P3 Health Partners	Strategic Add-on
Jul-22	Carolina Cardiology Associates	Cardiovascular Associates of America	Strategic Add-on
Jul-22	Willowbrook Cardiovascular Associates	US Heart and Vascular	Strategic Add-on
Jan-22	My Cardiologist Group	Novocardia	Strategic Add-on
Dec-21	Houston Cardiovascular Associates	US Heart and Vascular	Strategic Add-on
Dec-21	Pima Heart & Vascular	US Heart and Vascular	Strategic Add-on
Dec-21	Cardiovascular Associates of America	Webster Equity Partners	Platform
Dec-21	Cardiovascular Health Clinic	Assured Healthcare Partners	Platform
Nov-21	US Heart & Vascular	Ares Capital	Platform
Sep-21	USHP	Silversmith Capital Partners	Platform
Jun-21	Novocardia	Deerfield	Platform
Jun-21	First Coast Heart & Vascular Center	Novocardia	Strategic Add-on
May-21	Anderson Heart	National Cardiovascular Partners	Strategic Add-on
Apr-21	Nevada Heart & Vascular	A&M Capital	Platform
Mar-21	Tuscon Heart Group	Pima Heart and Vascular	Strategic Add-on
Nov-20	Partners First Cardiology	Varsity Healthcare	Platform

Key Valuation Takeaways for Cardiovascular Services[(2)]

Given the relatively new consolidation cycle, demand drivers, ancillary opportunities, and the scarcity of large-scale practices, cardiology groups have been trading at a premium compared to peers in other subspecialties. Organizations that have shown strong, consistent growth and exhibit several of the aforementioned 'value drivers' will be seen as premium platform assets in the space and will generally trade at double digit multiples of adjusted EBITDA in a competitive auction process. Scaled cardiology practices with a similar profile and higher sophistication, especially those in non-CON states, can trade into the 12x+ range due to their scarcity in the market. Those groups smaller in size that present attractive add-on opportunities to existing platforms will generally trade in the high single digit multiples of EBITDA[(2)].

Most cardiovascular transactions have been structured as multiple on a percentage scrape of the adjusted earnings of the practice prior to partner compensation. For more insights on deal structuring and market comps, please contact the Provident Healthcare Partners cardiology coverage team.

[(1)] Transaction statistics based on research completed by Provident; excludes non-publicly available transactions;
[(2)] Multiples are based on Provident market research and proprietary information

Conclusion – Provident's Perspective

Several overarching themes are driving investor interest in the cardiology specialty, including growing patient demand for cardiovascular services, a fragmented market of independent practices, and a migration of care to the outpatient setting. These factors have resulted in the formation of a dozen initial platforms in the sector, predominantly over the last year, with other investors actively pursuing opportunities to move into the market.

In this early phase of investment, the influx of private equity has resonated with many independent cardiology practices. For years, outpatient practices have seen competitors sell to health systems and many have remained fiercely independent despite declining reimbursement and regulatory hurdles in the industry. The opportunity to align with other like-minded, entrepreneurial practices is now feasible through the formation of these cardiology MSOs with significant capital backing. Provident expects transaction activity among independent practices to remain robust for the foreseeable future, coupled with acqui-hires of hospital-employed doctors, and eventually, alignment with hospital-owned practices.

Provident has observed varying strategies of growth from platforms across different MSAs. Hospital dynamics can be unique market-to-market, and CON versus non-CON states will dictate the feasibility of opening OBLs and ASCs in the short-term to take advantage of facility fee reimbursement. However, common strategies shared across geographies center around innovative and high-quality patient care to position for value-based care opportunities, leveraging a full suite of ancillary services, and pursuing a de novo and tuck-in M&A growth strategy.

As private-equity investment in the cardiology space ramps, platforms will look to differentiate themselves from one another through developing leading executive teams, driving equity value appreciation, demonstrating the continued ability to recruit key physician talent, and showing tangible success at implementing income-repair opportunities for partner practices. Physician's and other practice stakeholders should keep an open mind when evaluating potential partners to ensure alignment on key business points such as compensation, clinical decision making, physician recruitment model, and a market-specific growth strategy.

In the coming years, Provident anticipates that investment and consolidation within the cardiology specialty will mirror that of other physician specialties such as gastroenterology, urology, and orthopedics. Cardiology groups of all sizes that provide quality care will remain attractive investment opportunities and in a market that has substantial investor interest, Provident expects valuations to remain elevated for the foreseeable future.

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Provident Deal Spotlight: Southwest Cardiovascular Associates

Southwest Cardiovascular Associates ("SWCVA" or the "Company") is a leading provider of cardiology, interventional radiology, electrophysiology, and endovascular services in the Phoenix, Yuma, and Prescott Valley, AZ, markets. The practice has 10 providers throughout its four locations. In Spring 2021, the Company opened an ambulatory surgery center to meet the increasing demand for cardiovascular procedures, the first of its kind in the area. This ASC complemented its existing two cardiac catheterization labs, a model that SWCVA intends to replicate in other markets in Arizona.

In 2022, Provident led a targeted transaction process to find SWCVA a strategic partner that aligned with the company's vision for growth across the state and commitment to high quality patient-centric care. After vetting multiple options, SWCVA elected to partner with Cardiovascular Associates of America (CVAUSA), a portfolio company of Webster Equity Partners.

The partnership represented Cardiovascular Associates of America's entry into the Southwest region, providing an initial hub for further expansion across three markets in Arizona. Through additional M&A opportunities and de novo clinic and ASC development., the organization is poised for continued growth across the state.

Provident served as exclusive financial advisor to Southwest Cardiovascular Associates in this transaction with Cardiovascular Associates of America.

Southwest CardioVascular Associates

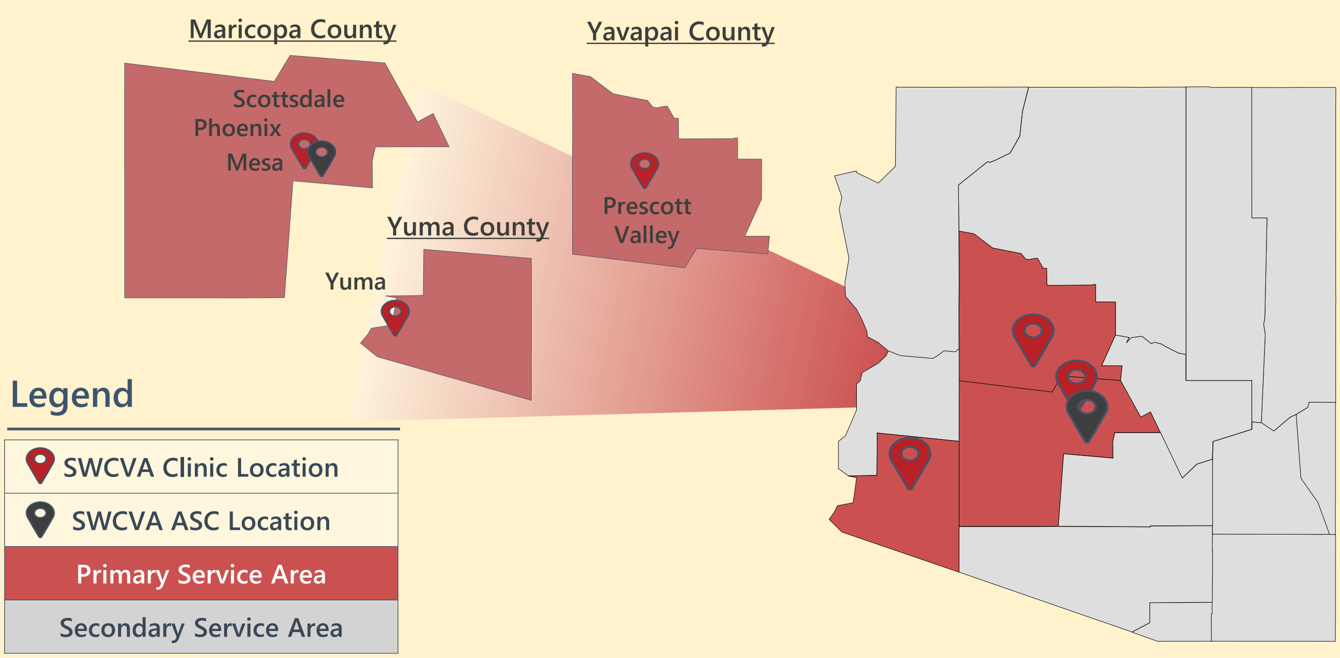
Has been acquired by

CARDIOVASCULAR ASSOCIATES OF AMERICA

a portfolio company of

Webster Equity Partners

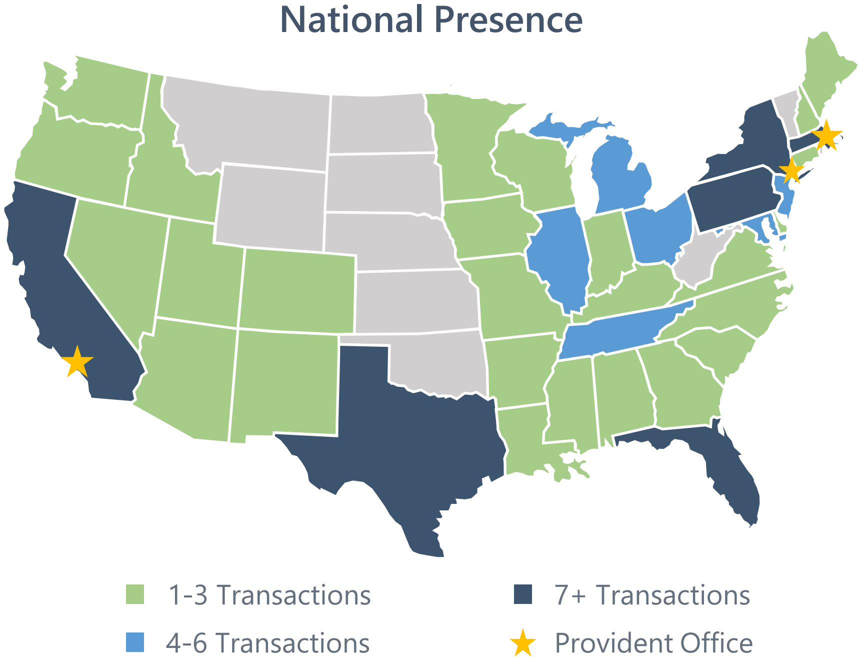
Southwest Cardiovascular Associates Clinical Footprint



About Provident Healthcare Partners

Provident Healthcare Partner's investment banking team works with privately owned healthcare companies to provide advisory services related to mergers and acquisitions. Prior to formal engagement, Provident works with companies to provide the upfront education to shareholders necessary to understand the economics, structure, and motivation of a transaction. Following the education process, if formally engaged, Provident leverages their extensive knowledge of the buyer universe to find the most compatible partner and drive valuations for a company's previously illiquid stock. Driving the entire transaction process, Provident facilitates and assists with deal structuring, negotiations, exit planning/processing, counseling amongst shareholders, and due diligence.

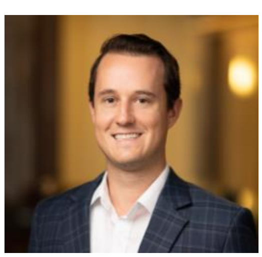
National Presence



23+	Years of Healthcare Investment Banking
150+	Healthcare Deals Closed
80+	Physician Services Deals Closed
12-15	Landmark Deals Per Year
27	Banking Professionals

Note: The above map represents states where Provident clients were headquartered. Provident has successfully closed transactions with clients operating in 45 states and Puerto Rico.

Provident Contacts:



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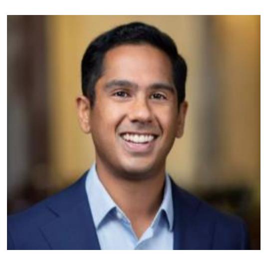

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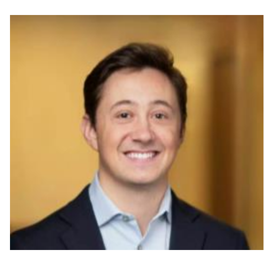

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Provident

Provident is the leading investment banking firm specializing in merger and acquisition advisory, strategic planning, and capital formation for middle-market and emerging growth healthcare companies.

The firm has a vast network of senior industry relationships, a thorough knowledge of market sectors and specialties, and unsurpassed experience and insight into the investment banking process.

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