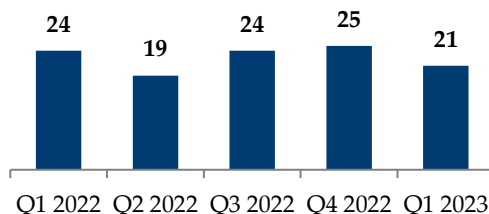


Q1 2023 Hospital and Health System Market Update

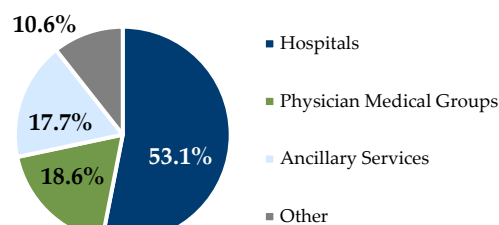
Market Commentary

- While down from Q1 2022 levels, hospital and health system M&A volume in Q1 2023 remained robust with 21 announced transactions.
- Calendar year 2022 posed challenges for the sector with several factors, such as labor shortages, inflation, and lower patient volumes, bringing significant financial and operational pressures to many systems, forcing some to explore strategic alternatives, such as M&A and partnerships, to remain viable.
- While these COVID-19 era pressures still linger, there are signs they may be easing, which should offer more stability in 2023. However, this could reverse course should we see additional COVID-19 case surges or the U.S. economy stumble into a recession.
- We have seen more resilient hospitals and health systems with strong balance sheets and ample cash opportunistically acquire other systems, physician groups, and other ancillary care providers, such as ambulatory surgery centers and urgent care clinics, to expand care capabilities and geographic reach.
- Other systems in more dire financial positions have been evaluating their portfolios and divesting non-core assets to soften the blow of deep operating losses. This trend is exemplified by ProMedica, an Ohio-based not-for-profit health system, who since 2021 has divested over \$1Bn of assets, including their home care and hospice assets, skilled nursing facilities, and health plan Medicaid contracts.
- Health systems are seeking to reverse the poor performance of 2022. However, inflation currently outpaces reimbursement rates, posing a significant challenge for health systems. Negotiations with insurers are expected to be a major hurdle in 2023, as they strive to balance financial sustainability with patient care.

Quarterly M&A Volume¹



Acquisitions by Target Sector Q1 2022 – Q1 2023¹



Select Precedent Transactions¹

Announcement Date	Acquirer	Target	Target Industry	Key Deal/Target Metrics
03/02/23	MercyOne, a member of Trinity Health	Genesis Health System, Inc.	Health System	2022 Revenue: \$728MM
02/28/23	Novant Health, Inc.	Lake Norman Regional Medical Center and Davis Regional Medical Center	Health System	Deal Value: \$320MM
02/27/23	Gentiva Health Services, Inc.	ProMedica's Heartland home health and hospice assets	Healthcare Provider	Deal Value: \$710MM
01/12/23	Sentara Healthcare	AvMed, Inc.	Health Plan	2022 Direct Premium Written: \$770MM
01/03/23	BayCare Health System, Inc.	Northside Behavioral Health Center, Inc.	Behavioral Health	Undisclosed

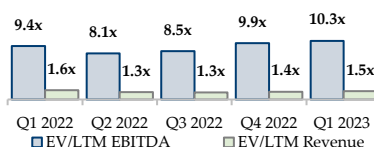
Select Public Company Trading Multiples²

(all financials in millions of USD, except per share items)

PUBLIC COMPANY TRADING MULTIPLES											
Company	Ticker	03/31/23 Close Price	1-Yr. Price Change	03/31/23 Close Price as % of 52-Week High	03/31/23 Market Cap.	03/31/23 Enterprise Value ("EV")	LTM Financials		EBITDA Margin	EV/LTM	
							Revenue	EBITDA		Revenue	EBITDA
HCA Healthcare, Inc.	HCA	\$263.68	5.2%	94.5%	\$73,106	\$115,000	\$60,233	\$12,022	20.0%	1.9x	9.6x
Universal Health Services, Inc.	UHS	127.10	-12.3%	80.3%	8,982	14,200	13,399	1,643	12.3%	1.1x	8.6x
Tenet Healthcare Corporation	THC	59.42	-30.9%	64.7%	6,077	25,017	19,390	3,542	18.3%	1.3x	7.1x
Encompass Health Corporation	EHC	54.10	-23.9%	72.5%	5,395	8,917	4,349	874	20.1%	2.1x	10.2x
Select Medical Holdings Corporation	SEM	25.85	7.8%	84.0%	3,288	8,615	6,334	581	9.2%	1.4x	14.8x
Community Health Systems, Inc.	CYH	4.90	-58.7%	40.1%	643	13,546	12,211	1,168	9.6%	1.1x	11.6x

- 2022 was a difficult year for health systems, which was reflected in their market valuations. Examining select publicly-traded companies, the average EV/EBITDA valuation dropped as low as 8.1x during the year. Valuations in Q1 2023 appear to have rebounded and could recover further this year.

Avg. Historical Trading Multiples



Min:	1.1x	7.1x
Median:	1.3x	9.9x
Mean:	1.5x	10.3x
Max:	2.1x	14.8x

Sherman & Company

Laughton Sherman
CEO & MD
(212) 897-9444

lsherman@sherman-company.com

Matt Hagan
Associate
(704) 943-2669

mhagan@sherman-company.com

Andrew Merrills
Analyst
(704) 943-2667

amerrills@sherman-company.com

Sherman & Company is an investment banking firm dedicated to the convergence of the insurance, healthcare, technology, and asset & wealth management industries.

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Sources: Sherman & Company 1. LevinPro HC database. Includes transactions where either the buyer or seller was a hospital/health system. "Ancillary Services" includes companies categorized as "Other Services" by LevinPro HC, which includes urgent care clinics, ambulatory surgery centers, freestanding emergency rooms, surgical centers, medical office buildings, among others. "Other" category includes home health and hospice, behavioral health, rehabilitation, healthcare technology, managed care, and laboratories. 2. S&P Capital IQ Pro