



Capstone Partners

FERTILITY CLINICS

Q1 2017

CONTACTS

Eric Williams

Managing Director
(215) 854-4065
ewilliams@capstonellc.com

Mark Surowiak

Director
(215) 854-4063
msurowiak@capstonellc.com

Matt Szymanski

Associate
(610) 768-8043
mszymanski@capstonellc.com

BOSTON

CHICAGO

LONDON

LOS ANGELES

NEW YORK

ORANGE COUNTY

PHILADELPHIA

SAN DIEGO

SILICON VALLEY

TAMPA

MARKET DYNAMICS

The US Fertility Clinic market has come of age and is ripe for a merger and acquisition cycle. Advancements in fertility technologies have resulted in higher success rates, and thanks to strong economic conditions, rising per capita disposable income, and greater awareness and acceptance of fertility treatments, the industry has enjoyed consistent growth and has reached an estimated \$1.9 billion in revenue in 2016. The trend for couples to marry later in life and to delay starting a family in pursuit of professional careers and financial security is also boosting demand for fertility services and accelerating industry growth. In recognition of these demographic changes, several states have adopted legislation mandating that insurance carriers provide coverage for fertility services and a number of Fortune 100 trendsetting companies now offer benefit packages that cover fertility services as part of their employee recruitment and retention initiatives.

Capstone has witnessed consolidation cycles reach peaks in other specialty physician practices, including ophthalmology, dermatology, dentistry, surgicalists and pain management. Medical groups have been flooded by private equity capital, boosting valuations and deal activity. In addition, large strategic players have been highly acquisitive looking to expand their geographic footprint, establish critical mass in regional markets and leverage resources and capabilities. With many of the same favorable dynamics in place, the fertility sector is poised for heightened M&A activity. The wave is already beginning with several leading healthcare-oriented private equity and VC firms making recent platform investments in the space including TA Associates, MTS Health Partners, Lee Equity Partners, TPG Biotech and Kleiner Perkins Caufield & Byers.

While the US consistently leads global healthcare M&A activity, consolidation within the US Fertility Clinic industry has lagged behind international markets. Over the last several years, there has been a growing level of cross-border M&A activity particularly in Europe, Australia and Asia as large global players such as Virtus Health, Monash IVF Group, NMC Health and HealthCare Global have expanded geographically through acquisitions. With 11.8% of the global in vitro fertilization (IVF) market (2012 data latest available) and attractive conditions, the US market will be increasingly targeted by international suitors.

MERGER AND ACQUISITION OVERVIEW

Private equity has increasingly recognized the favorable industry fundamentals inherent in the sector including a large growing market, high fragmentation, beneficial demographic trends and strong economic conditions. Notable private equity and VC investments include TA Associates acquisition of Colorado Center for Reproductive Medicine in August 2015, MTS Health Partners recapitalization of Ovation Fertility in June 2015, Lee Equity Partners seed capital in Prelude Fertility in October 2016 and TPG Biotech's and Kleiner Perkins Caufield & Byers \$20.0 million co-investment in Progyny in June 2016. Additionally, many private equity groups, while not having made initial platform investments, are increasingly vying for opportunities in the fertility sector.

MERGER AND ACQUISITION OVERVIEW (CONTINUED)

Strategic suitors consisting of larger regional clinics have started to become more active and have looked to further secure market share and gain scale. One noteworthy transaction occurred between Boston IVF and Reproductive Science Center of New England in October 2014. The acquisition enabled the combined entities to expand and improve patient care by leveraging personnel, technologies and systems, securing their position as the top resource for reproductive medicine in New England with a combined 5,611 cycles in 2014 (latest SART data available).

The international markets, particularly Europe and Australia, have accounted for the lion's share of global M&A activity within the fertility sector. This is largely due to the advancements and maturity of these markets in terms of high quality treatments supported by strict medical standards, economically priced fertility services, developed health systems with stable reimbursements and greater social acceptance of IVF. Additionally, international public players such as Virtus Health, Monash IVF Group, NMC Health and HealthCare Global Enterprises are trading at high valuations, further driving acquisitions and EBITDA multiples for targets.

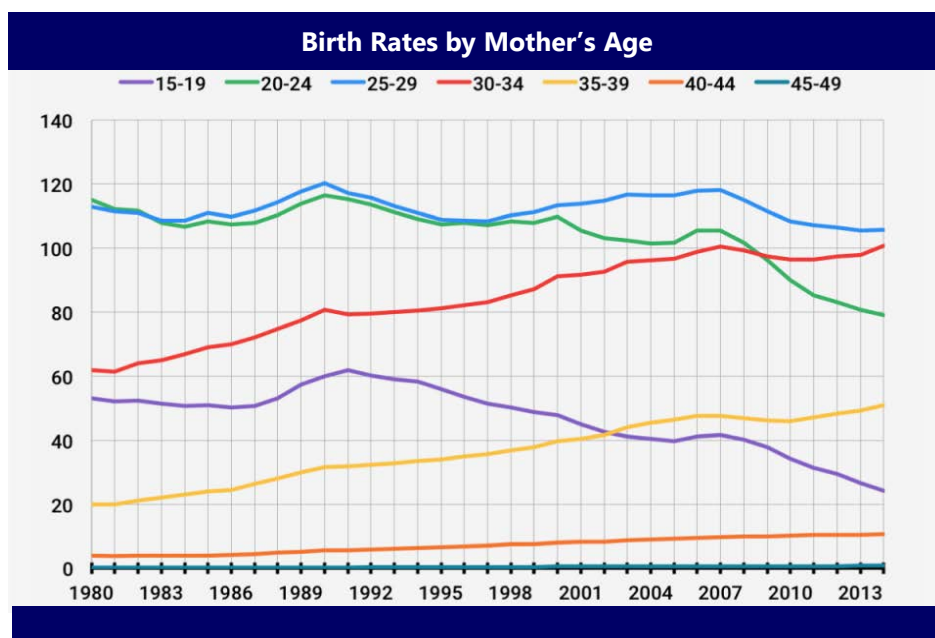
Virtus Health, the first and largest public player based in Australia, has completed four acquisitions in the last two years and has expanded to Ireland and Singapore as part of their international diversification strategy. Abu Dhabi-based NMC Health acquired EUVITRO, headquartered in Spain, in 2015 for \$162.0 million. More recently, NMC Health acquired Fakhif IVF Group for \$207.0 million in February 2016. NMC Health stated that these transactions move the company closer to its goal of becoming a global leader in the maternity and fertility sectors. As global fertility companies look to further expand their footprint, we expect to see strong interest from strategic international players looking to secure market share within the US over the coming years.

GROWTH DRIVERS

The US Fertility Clinic industry experienced healthy growth over the last five years with industry revenue increasing at an annual rate of 4.2% to \$1.9 billion, according to *IBISWorld*. Over the same period, the number of cycles performed, as reported by SART, increased by 9.1% annually to over 208,000 in 2014, compared to 2.7% annual growth from 2004 to 2009. Since the end of the great recession, demand for fertility services has grown on account of improving economic conditions resulting in greater disposable household income. Technology advancements have increased fertility success rates, particularly among older women, and reduced treatment costs. With favorable economic conditions and demographic factors in place, industry revenue is conservatively projected to grow to \$2.1 billion by 2021.

GROWTH DRIVERS (CONTINUED)

Delayed family starts – Couples are continuing to marry and have children later in life in pursuit of professional careers and greater financial security. As women are getting older before having children, age has become a major factor driving demand for fertility services. According to the Centers for Disease Control and Prevention (CDC), 20.0% of women now have their first child after age 35. Fertility complications more than double for women over the age of 35, causing difficulties for one out of every three couples. For these reasons, the greatest demand for fertility services are from women between the ages of 30 and 45, according to *IBISWorld*.



Source: National Vital Statistics Reports

Advancements in technology – Over the past decade, there have been significant innovations in egg retrieval, genetic testing and egg freezing procedures, which have resulted in greater fertility success rates, reduced risk and, in some cases, lower treatment costs. Continued advancements are expected; particularly in preimplantation genetic screening (PGS), which analyzes a women's eggs for chromosome abnormalities that often cause miscarriages. It is expected that over the next several years PGS will become more cost effective and its testing capabilities will extend beyond chromosome numbers.

Increased number of insured individuals – Improvements in the labor market and healthcare reforms are expected to cause the number of people with private health insurance to rise at an annual rate of 2.2% to 231.0 million people over the next five years. A growing number of private health insurance plans offer coverage for fertility treatments and 15 states have mandated that IVF be covered by both public and private insurers. Expanded insurance coverage is making fertility treatments more affordable and is driving demand. Additionally, several blue-chip, trendsetting companies such as Apple, Facebook, Intel and Cisco Systems have begun to offer fertility treatment benefits for women and couples as part of their employee benefits packages.

GROWTH DRIVERS (CONTINUED)

Strong economic conditions - While insurance providers are expanding benefits for fertility services, a significant portion of the treatment costs are still paid out of pocket by patients. Improving economic conditions have resulted in a drop in unemployment and are boosting disposable household income. Per capita disposable income is projected to continue to grow at a rate of 1.5% annually over the next five years. With favorable economic conditions and a positive outlook for job stability, more couples are starting families which is continuing to drive demand for fertility services.

COMPETITIVE LANDSCAPE

The US Fertility Clinic industry is highly fragmented and is comprised mainly of small regional clinics. In 2014, approximately 73.0% of the 453 clinics reporting to SART had 0.24% or less of the national market share. Even the largest conglomerate, IntegraMed, only accounts for 7.7% of market share with 16,108 cycles.

Fertility Clinics	Number of Cycles	% of Cycles Market Share
IntegraMed		
Shady Grove Fertility Reproductive Science Center	9,363	4.5%
River North IVF - Fertility Centers of Illinois	2,419	1.2%
Highland Park IVF Center - Fertility Centers of Illinois	2,275	1.1%
Seattle Reproductive Medicine	2,051	1.0%
IntegraMed Total	16,108	7.7%
New Hope Fertility Center West-Side	5,482	2.6%
Reproductive Medicine Associates of New Jersey	4,975	2.4%
Weill Medical College of Cornell	4,221	2.0%
Colorado Center of Reproductive Medicine	3,373	1.6%
Total Top Five Market Share	34,159	16.4%
All Other Fertility Clinics	174,445	83.6%
Totals	208,604	100.0%

Source: SART 2014

The location of fertility clinics largely mirrors the disbursement of the US population. As such, the vast majority of clinics are located in urban areas where there is also greater access to other medical specialists, particularly urology and obstetrics and gynecology practitioners.

WOMEN'S HEALTH AND FERTILITY: SELECT M&A TRANSACTIONS

Ann. Date	Target	Acquirer	Target Business Description	Enterprise Value (mm)	EV / LTM Revenue	EBITDA
10/27/16	Village Fertility Pharmacy	Apothecary by Design	Provides services and educational resources to fertility patients and clinics.	-	-	-
10/18/16	SW Women's Healthcare Assoc.	DuPage Medical Group	Offers obstetrical and gynecological care services to women in Chicago.	-	-	-
08/15/16	Maternal Fetal Medicine SW FL	MEDNAX	Provides obstetric services in Florida.	-	-	-
07/26/16	SM & H	Advantia Health	Provides women's healthcare, obstetrics and gynecology service in Maryland.	-	-	-
07/06/16	Copenhagen Fertility Center	EUVITRO	Offers reproduction services.	-	-	-
06/03/16	Fertilitetsklinikken Lygten	Copenhagen Fertility Center	Operates fertility clinics.	-	-	-
05/20/16	Canberra Fertility Centre	Virtus Health	Offers a range of programs for infertility.	\$2.5	-	-
05/18/16	Clane Fertility Clinic	Institut Marquès	Provides assisted reproduction treatment services.	-	-	-
05/17/16	Genesis Genetics South Africa	Next Biosciences	Offers preimplantation gene disorders used in conjunction with in vitro fertilization clinics.	-	-	-
04/26/16	Repromed	FutureLife	Provides human fertility investigations, diagnostics and treatments.	-	-	-
03/30/16	Insemer	Instituto Valenciano De Infertilidad	Owns and operates fertility clinics.	-	-	-
03/09/16	United Therapies	HealthTronics	Provides urological services and supplies surgical equipment to hospitals in the US.	-	-	-
02/08/16	Women First Wellness Center	Premier Health Partners	Operates an obstetrician and gynecologist facility in Ohio.	-	-	-
12/03/15	OB/GYN of East Brunswick	Regional Women's Health Group	Provides obstetrical care and gynecological procedures and treatments for women primarily in New Jersey.	\$13.3	-	-
11/25/15	7667264 Canada	IntegraMed	Provides fertility services.	-	-	-
11/24/15	Fakih IVF	NMC Health	Provides in vitro fertilization and related services.	\$206.8	-	7.0x
10/16/15	Reconceived	Vivere Health	Provides workshops for fertility and medical practices.	-	-	-
10/08/15	Stork IVF Klinik	GF Gesundheit	Offers fertility treatment services.	-	-	-
10/05/15	Lifestages Centers for Women	Premier Health Specialists	Provides obstetric and gynecology services in Ohio.	-	-	-
08/10/15	Chaophya Hospital	Mahachai Hospital	Offers obstetrics and gynecology, surgery and fertility services.	\$1.4	1.3x	-
08/04/15	CO Center for Repro. Medicine	TA Associates Management	Operates fertility clinics.	-	-	-
08/04/15	Lifeline Cryogenics	California Cryobank Stem Cell Services	Offers cryogenics services which includes storage of sperm, eggs, embryos and cord blood stem cells.	-	-	-
07/09/15	Opmedic Group	IntegraMed	Provides professional fertility, laboratory and genetic, and diagnostic laboratory services.	-	-	-
02/24/15	EUVITRO	NMC Health	Operates as a fertility clinic in Europe.	\$162.1	4.2x	10.2x
05/30/14	The Sims Clinic	Virtus Health	Provides fertility treatment services.	\$21.1	-	7.8x

CAPSTONE PARTNERS: COMPLETED HEALTH & MEDICAL TRANSACTIONS

Capstone Partners has successfully advised on a number of health and medical transactions; a sampling of transactions are detailed below. Capstone's experience in the industry provides us with insight into the valuable attributes and likely valuation of target companies, the active buyers in the industry, and the nuances of transactions in the space.



Progressus Therapy

has been acquired by



Invo
HealthCare Associates®

2016
USA DEAL
OF THE YEAR



**THE M&A
ATLAS
AWARDS**

Recently, Capstone Partners was recognized by our industry peers with the M&A Atlas Awards USA Deal of the Year for our representation of Progressus Therapy, a portfolio company of Sterling Partners, on its sale to Invo Healthcare.

Progressus Therapy is one of the nation's leaders in school-based and early intervention programs and services. The Company provides a multitude of special education services from speech-language pathology (SLP), occupational therapy (OT) and physical therapy (PT) to psychology, nursing, teaching and early intervention. Partnering with hundreds of school districts and charter schools, as well as early intervention agencies across the country, Progressus Therapy employs more than 500 highly qualified clinicians and special education professionals who work with families and school communities to improve the outcomes of children with special needs.

<p>CONFIDENTIAL</p> <p>is pursuing a corporate sale</p> <p>PEDIATRIC NURSE STAFFING</p>	<p>CONFIDENTIAL</p> <p>is pursuing a corporate sale</p> <p>ALLIED HEALTHCARE STAFFING</p>	<p>AVOMEEN ANALYTICAL SERVICES</p> <p>has recapitalized with</p>  <p>HIGH STREET CAPITAL</p>	<p>Accurate NEUROMONITORING</p> <p>has been acquired by</p>  <p>HOUSATONIC PARTNERS</p>	<p>LSP LUTZ SURGICAL PARTNERS</p> <p>has been acquired by</p> <p>A PRIVATE INVESTMENT GROUP</p>
<p>TDOC AIR-CHARGED CATHETERS</p> <p>has been acquired by</p>  <p>LABORIE a portfolio company of AUDAX GROUP, INC.</p>	<p>park bench GROUP</p> <p>has been acquired by</p>  <p>elements BEHAVIORAL HEALTH CREATING EXTRAORDINARY LIVES</p>	<p>Tricore Educate. Influence. Motivate.</p> <p>has been acquired by</p>  <p>highroad CAPITAL PARTNERS</p>	<p>WH WHITEHOUSE LABORATORIES</p> <p>has been acquired by</p>  <p>AMRI Albany Molecular Research Inc.</p>	<p>AGGU * MET LASER, Inc.</p> <p>has been acquired by</p> <p>RiversidePartners, Inc.</p>
<p>Radius Medical TECHNOLOGIES, INC.</p> <p>has divested assets to</p>  <p>Vascular TECHNOLOGIES</p>	<p>KERADERM REDEFINING THE HEALING POWER OF LIGHT</p> <p>has secured financing from</p>  <p>NEWVA CAPITAL PARTNERS, LP</p>	<p>nova science</p> <p>has been acquired by</p>  <p>Abbott A Promise for Life</p>	<p>the ame group Specializing in Acute, Ambulatory, and Diagnostic</p> <p>has acquired</p> <p>CERTIFIED IT & ITRICITY FREEDOM DATA</p>	<p>plastek</p> <p>has divested assets to</p>  <p>ROMEIO RIM, INC.</p>

THE FERTILITY CLINIC TEAM

**Eric Williams, Managing Director**

ewilliams@capstonellc.com • (215) 854-4065

Eric serves as Managing Director and Head of the Atlantic Region for Capstone, based out of Philadelphia. Prior to Capstone, Eric was responsible for managing the Eastern region for Morgan Stanley Smith Barney's Capital Strategies Group and its predecessor, Citi Capital Strategies. Eric has more than 20 years of experience managing strategic sale assignments and leveraged recapitalizations for owners of privately held companies. He is head of Capstone's Health and Medical practice and has successfully completed over 100 transactions in a wide range of industries including medical device, contract manufacturing, pharmaceutical outsourcing, health care services and education and training. In 2016, he received the "USA Deal of the Year" at the M&A Atlas Awards for his work on the acquisition of Progressus Therapy, LLC and in 2014 was awarded both "M&A North American Middle Market Deal of the Year" at the M&A Atlas Awards and "Cross Border Deal of the Year" from the M&A Advisor for his work on the sale of T-DOC Company LLC. Eric has executed complex cross-border transactions with foreign buyers based in London, Germany, Sweden and Switzerland and has structured deals with leading private equity groups and strategic corporate buyers. He graduated cum laude from the University of California and is a Series 7 and 63 Registered Securities Representative as well as a Series 24 Registered Securities Principal.

**Mark Surowiak, Director**

msurowiak@capstonellc.com • (215) 854-4063

Mark is a Director in the Philadelphia office, supporting the management of the Atlantic Region. Previously, Mark served over 10 years as a senior investment banking professional in Morgan Stanley Smith Barney's Capital Strategies Group. Over his career, Mark has focused on developing deep credentials and expertise in the sale and recapitalization of privately held businesses. Prior to investment banking, Mark enjoyed a career in the social services field. Mark is a graduate of Illinois State University with a BS in Business Administration. He is a Series 7 and 63 Registered Securities Representative.

**Matthew Szymanski, Associate**

mszymanski@capstonellc.com • (610) 768-8043

Matthew serves as an Associate with Capstone's Philadelphia investment banking team, where his focus includes providing advisory services, transaction execution and client engagements to multiple industries and sectors. Prior to joining Capstone, Matthew was pursuing a career in the NFL and was signed by the Kansas City Chiefs and Miami Dolphins. Matthew graduated from Southern Methodist University with a BA in Economics and earned a Masters in Finance from the University of Cincinnati. He is a Series 79 and 63 Registered Securities Representative.

CAPSTONE'S OFFICE LOCATIONS

BOSTON

176 Federal Street
3rd Floor
Boston, MA 02110
(617) 619-3300

CHICAGO

200 South Wacker Drive
Suite 3100
Chicago, IL 60606
(312) 674-4531

LONDON

42 Brook Street
London W1K 5DB
United Kingdom
+44 (0) 203 427 5068

LOS ANGELES

401 Wilshire
Suite 1200
Santa Monica, CA 90401
(858) 926-5950

NEW YORK

340 Madison Avenue
10th Floor
New York, NY 10173
(212) 634-0855

ORANGE COUNTY

23046 Avenida de la Carlota
Suite 600
Laguna Hills, CA 92653
(949) 460-6431

PHILADELPHIA

1515 Market Street
12th Floor
Philadelphia, PA 19102
(215) 854-4063

SAN DIEGO

12707 High Bluff Drive
Suite 200
San Diego, CA 92130
(858) 926-5950

SILICON VALLEY

228 Hamilton Avenue
3rd Floor
Palo Alto, CA 94301
(650) 319-7370

TAMPA

1550 W Cleveland Street
Suite 10
Tampa, FL 33679
(813) 251-7285

ABOUT CAPSTONE PARTNERS

Capstone Partners LLC is an award-winning investment banking firm dedicated to serving the corporate finance needs of middle market business owners, investors and creditors. Over the past 15 years, Capstone has earned a reputation as one of the most innovative firms in the industry, offering corporate sale & divestiture, merger & acquisition, private placement, corporate restructuring, valuation and financial advisory services. The firm maintains seven industry practices, including: Business Services, Consumer Products, Education & Training, Government Services, Health & Medical, Manufacturing & Industrial, and Technology & Telecom. Headquartered in Boston, Capstone has offices in Chicago, London, Los Angeles, Philadelphia, San Diego, Silicon Valley and Tampa with an international presence that spans 450+ professionals in 70 offices across 31 countries.

**For more information
about our expertise,
please visit
www.capstonellc.com**



Capstone Partners

World Class Wall Street Expertise. Built for the Middle Market