

## 3 Questions With John McDonald, Senior Managing Partner, Hyde Park Capital

*Hyde Park Capital ([www.hydeparkcapital.com](http://www.hydeparkcapital.com)) is an institutionally focused investment banking firm that specializes in mergers and acquisitions and private placements, and serves the corporate finance needs of middle market public and private companies. One of the most active investment banking firms in Florida and the Southeast, Hyde Park has advised on more than 300 corporate investment banking transactions totaling more than \$10 billion in transaction value. In this issue, John McDonald, Hyde Park Capital's co-founder and senior managing director, talks about the state of the healthcare capital market.*

### **How would you characterize the current state of the healthcare capital markets?**

I would characterize it as relatively flat with prior years, although each of the major indices declined at some point during the third quarter. As of September 30, for the year, the S&P 500 was down 0.9 percent, the S&P Global Healthcare Index increased by two percent and Nasdaq was up 3.2 percent. On the other hand, the equity markets displayed overall strength and investor demand across the healthcare industry, driven by the successful completion of several initial public offerings. The healthcare sector was also very active in raising debt capital during Q3, with numerous fixed income offerings completed. This included a \$3 billion debt issuance from HCA.

### **How robust has middle market activity been in the healthcare sector?**

Very robust. Deal volume remains healthy with 229 closed M&A transactions in the first three quarters of 2011, up 26 percent from the same period in 2010. The overall year-to-date value of middle market deals was \$34 billion, which means both overall transaction volume and value remains on pace to exceed last year's totals in the healthcare industry. Middle market transactions pricing did decline slightly from a historical perspective to an average of 10.3x EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization) for the first three quarters of the year.

In the third quarter, healthcare M&A transaction volumes increased year-over-year across nearly all segments, increasing by eight percent with 69 deals. Values were also up by four percent to \$9.4 billion. That compares to 64 transactions valued at \$9.1 billion during the same period in 2010. Further, transactions valued at less than \$100 million represented 62 percent of the total number of closed deals in Q3 2011, which is consistent with 2010.

In terms of volume, healthcare facility deals led the pack, with 84 transactions in the first three quarters of the year, up from 53 in the same period last year. This segment was followed closely by pharmaceuticals, biotechnology and life sciences, which recorded 60 transactions combined, up from 51 during the same period in 2010. Deal values were highest within pharmaceuticals, biotechnology and life sciences, coming in at more than \$13 million combined during the three quarters of 2011. That's up from \$9.7 million in the same period of 2010.

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### **How active is the private equity market in healthcare?**

With financing markets cooperating, financial sponsors remained active investors across all sectors of healthcare in the third quarter of the year. Total transaction volume hit 69 in the third quarter, 87 percent of which came from strategic buyers. Total transaction values reached \$9.4 billion in Q3, 87 percent of which came from financial sponsors. During the third quarter, financial sponsors represented the buyer in approximately one of seven completed deals.

Several notable transactions were announced during the third quarter, including Blackstone and Hellman & Friedman's joint acquisition of Emdeon, Inc. for \$3.3 billion, or 13.1x Enterprise Value/EBITDA and 3.1x Enterprise Value/Revenue.