

Diagnostic Imaging Equipment Servicing & Parts Replacement

Sector Spotlight

Private Equity Interest Intensifies for Businesses that Service Medical Equipment and Replace Parts

The diagnostic imaging and biomedical equipment ecosystem is a rapidly growing market with constant innovation creating the need for businesses that service (maintain, repair, refurbish) that equipment and replace parts.

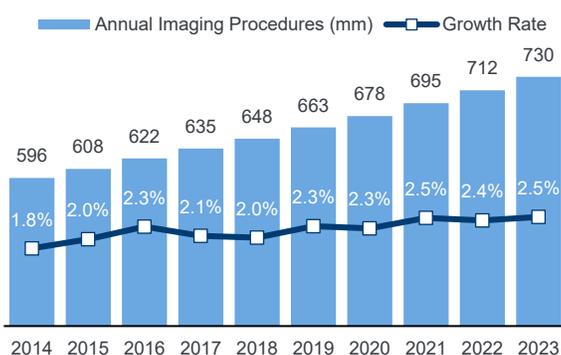
Historically, Original Equipment Manufacturers (“OEM”) have dominated the resources and expertise to service equipment and replace parts, but for several reasons outlined here, Independent Services Organizations (“ISO”) have gained a foothold among cost-conscious users who like ISO’s more customer-centric servicing options.

As businesses in the ISO space have proliferated, strategic and private equity capital has flocked to this fragmented, recession-resistant space.

The Cascadia Healthcare team has recent and relevant experience transacting ISO businesses, and understands the market, value drivers, and industry participants as well as, or better, than any other bank. By virtue of our experiences, our team has developed a clear vision on where the market is heading. The industry is changing rapidly, and we’re at the forefront of the activity with this new wave of consolidation and value creation.

Tailwinds for Imaging Utilization

Growth of Diagnostic Imaging Procedures



Source: [RadNet Investor Presentation, January 2022](#)

Demographic Trends: Aging population increases utilization of imaging per year providing utilization visibility for imaging; simultaneously, increased life expectancy increases lifetime utilization per patient supporting long-term growth of the sector

Payor Pressures/Focus: Healthcare payors (both governmental and commercial) are increasingly focusing on preventive care (including diagnostic testing) as they seek to bend the cost curve and promote value-based care



Evolution of the Equipment User

Hospitals have traditionally dominated the utilization of imaging testing; however, several factors have caused imaging to migrate from the hospital to freestanding imaging centers:

- Hospital margin compression generally and governmental (and commercial) payor pressure particularly have pushed low- and medium-acuity imaging work out of the hospital and into freestanding diagnostic imaging centers (aligned or not aligned with a hospital/physician group)
- COVID-19 negatively impacted imaging utilization initially, but COVID-19 accelerated the migration of imaging to an outpatient setting due to patient concerns and facility capacity
- Increasing technological complexity of equipment has given imaging centers (which often specialize in certain types of testing) a comparative advantage over traditional hospital-based settings

Hospitals will continue to be important users of diagnostic equipment, but the trend toward procedures performed in imaging centers is here to stay.

Diagnostic Imaging Centers Quick Facts

10,000+ US Diagnostic Imaging Centers
(~6,000 freestanding & ~4,000 aligned)

~\$23bn Diagnostic Center Industry

245 CT Scans / 1k US patients / year

118 MRI Scans / 1k US patients / year

11% Cumul. 2020-22 IP vs OP
Reimbursement Cut for Radiology

Source: Organisation for Economic Co-operation and Development, Centers for Medicare and Medicaid Services, Grand View Research

The Legacy Model of Servicing Equipment & Replacing Parts

- Hospitals (the historical user of equipment) traditionally have large contracts with Original Equipment Manufacturers (“OEM”) who manufacture the equipment, as well as other medical devices, supplies, and equipment that hospitals use
- For contract, legal, liability, and other reasons, hospitals would default to the repair work and replacement parts offered by the OEM’s – these arrangements are often high cost, high minimum time commitments, and bureaucratic with respect to customer service
- With the migration of imaging from hospitals to imaging centers, significant governmental action supporting “right to repair” (i.e., the user’s right to have repair work performed outside the OEM’s repair network), and the increasing sophistication of independent services organizations (“ISO”), businesses that offer equipment servicing or parts repair have proliferated across the US



The New Model: Independent Services Organizations

- ISO's consist of highly trained engineering teams, typically with long-term customer contracts that offer high-touch, high-value customer service
- An increasingly popular offering by ISO's is Healthcare Technology Management ("HTM"), a management services arrangement that serves as a one-stop shop for many imaging centers
- The geographic coverage of many ISO's is not tightly confined, but the primary service areas of many ISO's is fairly limited, leading to a fragmented market

Capital Markets Overview

Despite a spate of recent deals, the space for equipment servicing and parts replacement is still highly fragmented with rollup or consolidation opportunities.

This fragmentation, combined with recession-resistant margins and high technical expertise required to run these businesses, has attracted significant amounts of strategic and private equity capital.

Buyers of servicing and parts replacement fall into three primary buckets: (1) Sponsors Looking for a Platform; (2) Sponsor-backed Strategic Buyers; and (3) Strategic Buyers





While these buyer buckets often make similar qualitative judgments about the value drivers of businesses, Cascadia’s experience is that these buyer buckets have different propensities to deploy capital.



Lower Valuation

- Standard industry participant with **average margins and growth profile** that follows overall industry trends
- Companies in **traditional, product-based business lines** servicing products with low or no value add
- Selling in **low revenue visibility** business lines; project-based work, selling simple products and parts & equipment

Premium Valuation

- Doing business in **attractive areas of expertise**; technology, high ticket items or high value add services
- High revenue growth visibility** as InterMed outlines the targeted customers with predictable revenue from sticky long-term contracts
- A properly run process** with the optimal potential buyers can create a strong competitive dynamic that generates a spike bid

If you own a business in or adjacent to the diagnostic imaging/biomedical equipment servicing or parts replacement space, our team is always eager to connect and share specifics about how what we are seeing in the market might help inform the path forward.

Diagnostic Equipment Servicing & Parts Replacement

Cascadia Client Case Study

National Provider of Multi-modality Imaging Equipment Servicing Acquired by PE Firm

Project Titos

Sell-Side M&A

Q1 2022

Overview

- National provider of multi-modality and multi-manufacturer imaging equipment services, focused on providing responsive service to blue-chip customer base of outpatient imaging centers, hospitals, OEM's & other ISO's
- Provides a variety of services via Master Service Agreements, time and material solutions, as well as sells parts and equipment
- Built proprietary technology-enabled solutions which optimize efficiency, including an industry-leading digital parts search tool and remote diagnostics & troubleshooting web-enabled application

Situation

- The co-founder-led Company has made strategic acquisitions over the past several years to expand geographical reach, service more modalities, and incorporate proprietary technology to help drive customer satisfaction while decreasing cost and machine down-time
- Transaction Objectives:
 - Create partnership that allows the company to **expand footprint & penetration**, further **augment service & product lines**, and **catalyze organic & inorganic growth**
 - Capitalize on partial liquidity event for founder owners

Cascadia Process

- Cascadia led a **broad process of ~60 sponsors looking to create a platform as well as sponsor-backed strategics**
- Cascadia dedicated consistent, **senior-level attention** to the transaction with a **five-banker deal team**
- While in exclusivity, Cascadia stayed in consistent communication with the two runners-ups **to maintain competitive tension, focus diligence efforts, and ensure a tight timeline**

For more information on this transaction,
contact the deal team:

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Cascadia Capital

Healthcare Investment Banking Team

Healthcare Sector Expertise

Medical Products & Devices

- Imaging & Diagnostics
- Medical Devices
- Contract Manufacturing Org.
- Facilities
- Institutional & Retail Pharmacy
- Laboratory
- Medical Products & Consumables
- Original Equipment Manufacturers

Digital Health

- Care Coordination & Practice Mgmt
- Data Analytics & Clinical Intelligence
- Healthcare IT Services & Consulting
- Interoperability
- Patient Engagement
- Pharmacy Tech
- RCM, Healthcare Billing & Payments
- Simulation & Education Tech
- Telemedicine & RPM
- Workflow

Healthcare Services

- Behavioral Health
- Cardiology
- Clinical Research
- Fertility
- Gastroenterology
- Oral Surgery
- Physician Practice Management
- Primary Care
- Urgent Care
- Women's Health

Contact the Healthcare Deal Team



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