



Healthcare Focus

A QUARTERLY JOURNAL HIGHLIGHTING
TRANSACTIONS, DEVELOPMENTS, AND METRICS

In this Issue...

- ▶ **Dresner Partners' Market Insights: 4Q analysis**.....1
- ▶ **In the News: Recent transactions and regulatory updates in the healthcare industry**.....2
- ▶ **Equity & Debt Capital Markets Overview**.....3-4
- ▶ **Dresner Healthcare Group**.....4

Healthcare Industry Poised for Solid 4Q

Healthcare investment continues unabated through the first three quarters of 2006. Net new commitments by the private capital markets to the sector topped \$36 billion year-to-date September. Overall, net new commitments by private capital markets reached \$128 billion. Public offerings of debt and equity year-to-date September totaled over \$2,162 billion. Much of the public money was contributed to the life sciences and medtech sectors. The private markets are focused primarily on the alternate-site provider market, particularly the ambulatory and short-stay surgery center market, healthcare real estate, and certain other alternate-site and ancillary businesses such as dental practices and outpatient dialysis.

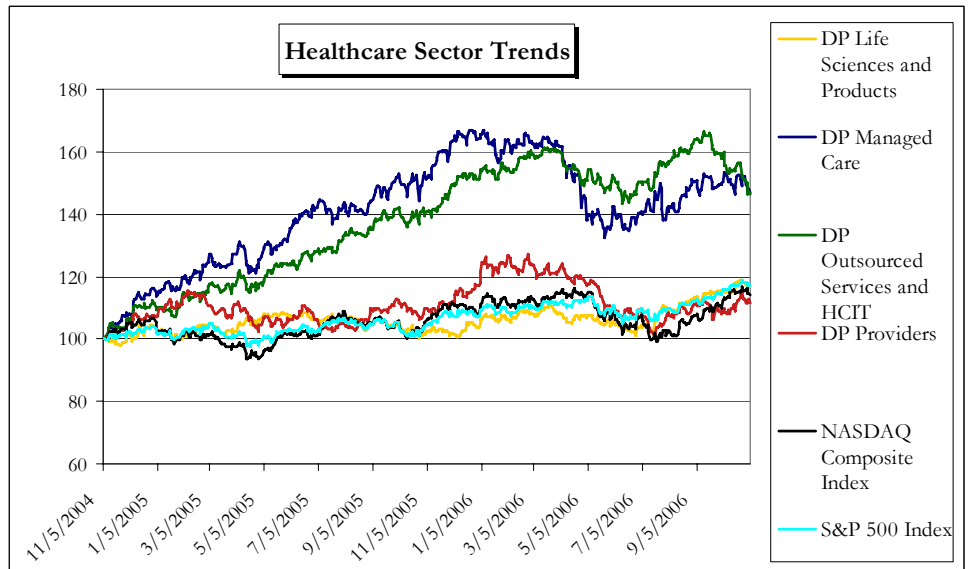
Recently announced transactions in the hospital market – from the announced Bain/KKR-led HCA go-private, to rumors circling around a similar transaction on Triad, to ongoing single and multi-hospital transactions occurring across the country – suggest that the for-profit market's appetite for the sector continues. We are very intrigued with the emerging market opportunity in certain niches – e.g. emergency room physicians, hospitalists, and radiologists. Emerging and embedded technology and physician needs are driving the opportunity.

This month, we highlight performance in the ASC market. Net new capital continues to flow into the sector, with *de novo* center development continuing. The market remains highly fragmented, with the five largest operators owning only 13% of total market. We see this market at the beginning of a significant consolidation that we would expect will be ongoing through the end of the decade. The ambulatory surgery center market has grown rapidly over the last five years; however, it is still relatively fragmented. There is considerable room for consolidation, especially when compared to other healthcare industries. Anecdotal evidence suggests a nascent trend toward convergence of sub-sectors; e.g. outpatient surgery, diagnostic imaging and specialties such as radiation oncology.

Analytical trends point to a concrete conclusion: robust growth in the ASC market over the next 4-5 years. Total outpatient surgeries in the United States have increased at a CAGR of 3.1% from 1993 to 2003, while inpatient surgeries have decreased by a CAGR of 0.2%. The percentage of surgeries performed in outpatient settings has increased from 55% in 1993 to over 64% in 2003. Ambulatory surgery center cases have increased steadily in the United States from 4.3 million in 1996 to over 8.8 million in 2005, a CAGR of over 8%. Industry estimates suggest that there will be nearly 10 million cases in 2007.

SECTOR PERFORMANCE

Dresner Partners Indices	Aggregate Sector Metrics		
	Median Market Cap (\$mm)	Median EV/ LTM EBITDA	Median EV/ LTM Revenue
Life Sciences and Products	\$6,736.1	11.60x	2.25x
Managed Care	\$4,745.2	8.46x	0.74x
Outsourced Services and HC IT	\$1,024.8	14.73x	2.12x
HP Providers	\$742.9	8.27x	1.04x



HEALTHCARE INDUSTRY DEVELOPMENTS

Selected Recent 2006 Transactions

On October 12, **Calvert Health Partners** closed three separate transactions in the home healthcare space. They acquired **Advantage Care of Shenandoah**, **Home Health Connection**, and **Tama Health** for undisclosed amounts.

On October 3, the **Texas Pacific Group** entered into a definitive agreement to purchase the Transfusion Therapies business of **Baxter International** for **\$540 million**.

On September 19, **LHC Group** bought **Lifeline Home Health Care**, an operator of home healthcare services for an undisclosed amount.

On July 24, a consortium of private equity investors consisting of **Bain Capital**, **Kohlberg Kravis and Roberts** and **Merrill Lynch Global Private Equity**, entered into a going-private transaction with **HCA**, an operator of 176 acute care hospitals and 92 outpatient surgery centers, for **\$33 billion**.

On July 12, **JER Partners/Formation Capital** acquired **Tandem Healthcare**, an operator of 78 skilled nursing, assisted living and independent living facilities with a total capacity of 8,000 residents, for **\$620 million**.

On July 10, **Warburg Pincus & Co.** acquired **Brandywine Senior Care**, an operator of nine assisted living and Alzheimer's facilities with approximately 1,000 beds, for **\$150 million**.

On June 30, **Sunrise Senior Living** and a joint venture capital partner entered into an agreement to acquire **Aston Gardens**, an operator of six assisted and independent living facilities, for **\$450 million**.

On June 30, **The Blackstone Group** entered into a going-private transaction with **En-core Medical**, a manufacturer of orthopedic implant products, for **\$465 million**.

On May 19, **Danaher Corporation** acquired **Sybron Dental Specialties**, a manufacturer of dental implant and infection prevention products, for **\$1.9 billion**.

Source: Mergerstat

On June 26, **General Electric Company** entered into an agreement to acquire 186 nursing homes from **Formation Capital**, a provider of capital and services to the senior living industry, for **\$1.4 billion**.

Regulatory Update

Illinois Hospital's Property Tax Exemption Revoked. The **Illinois Department of Revenue** has upheld the conclusion of local taxing authorities in Champaign County, IL that **Provena Covenant Medical Center** no longer qualifies for exemption from Illinois property taxes. The ruling could have **widespread implications for the not-for-profit** sector, with myriad federal, state, and local tax officials currently re-examining whether non-profit hospitals are being operated in a manner that warrants continued exemption from taxes.

Consumer-Driven Healthcare. On August 22, **President Bush** signed an **Executive Order** "to promote federally led efforts to implement more **transparent and high-quality health care.**" The Order is intended to encourage value-based competition in healthcare, resulting in rising consumerism.

Deficit Reduction Act of 2005 (DRA). In early August, the **Department of Health and Human Services (HHS)** issued a final report relating to specialty and general hospitals and Ambulatory Surgery Centers (ASCs), as required by the **DRA**. The report details changes in the DRA weighting and configuration system. Such changes will have a **significant negative impact on payments to specialty and general acute care hospitals**. In addition, payments to ASCs are expected to be linked to the hospital outpatient regime, resulting in lower incentives for physicians to invest in ASCs.

Hospital Tax Exemption. In May, the **IRS** began sending "**compliance check**" surveys to hospitals (a total of 600 will be sent) to begin gathering information on whether hospitals meet the tests for tax exemption. Earlier in 2006, the IRS began auditing tax-exempt bond issues for compliance with Code Section 501(c)(3), and embarked on an initiative to review hospitals' compliance with the "**community benefit standard.**"

ISSUE SPOTLIGHT: AMBULATORY SURGERY CENTERS

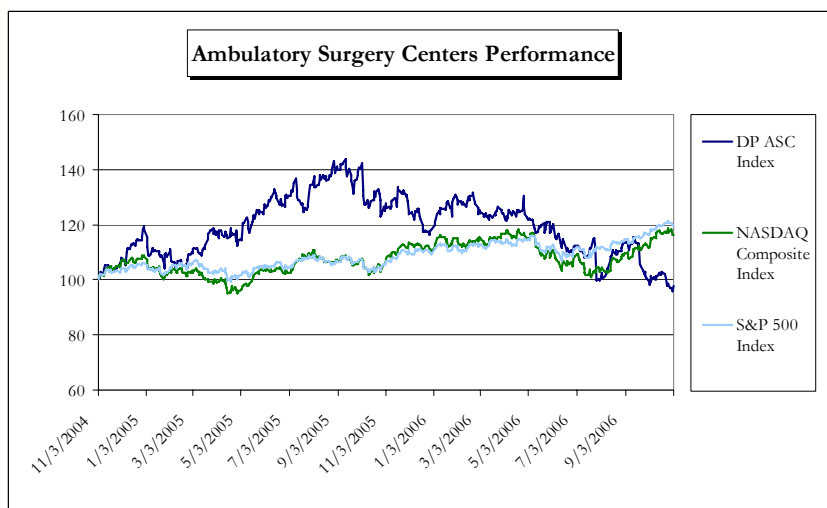
There are several factors driving growth in this sector:

- Payer, physician, and patient adoption of the ASC as the preferred site of care
- Technology advances enabling more procedures to be performed in the ASC
- Access to capital

Despite these factors, ASCs face challenges that diminish historical outsized returns, pushing them back in line with the S&P 500 and NASDAQ.

Key challenges:

- Increasing competitive landscape—important geographic areas reaching market saturation
- Reimbursement rates coming under scrutiny—congress voted to trim Medicaid by \$10 billion beginning in 2007
- Certificate of Need laws could experience a resurgence



Ambulatory Surgery Centers

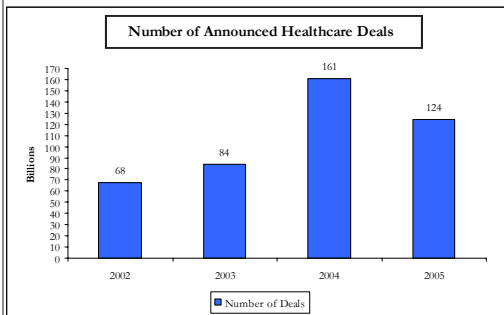
Ticker	Company	Stock Price*	Market Cap*	Enterprise Value (EV)*	EV/LTM EBITDA	EV/LTM Revenue	EBITDA Margin
AMSG	AmSurg Corp.	\$20.22	\$603.7	\$763.3	4.2x	1.7x	40.0
NOVA	NovaMed Inc.	7.51	177.2	220.6	9.1x	2.2x	24.0
SMBI	Symbion Inc.	16.29	351.3	468.9	6.0x	1.6x	26.3
USPI	United Surgical Partners International Inc.	24.90	1,110.0	1,525.3	8.3x	2.8x	33.9

*Pricing and LTM Data as of 11/01/06

Mean	6.9x	2.1x	31.1
Median	7.1x	1.9x	30.1

MARKET METRICS

Private Equity Market



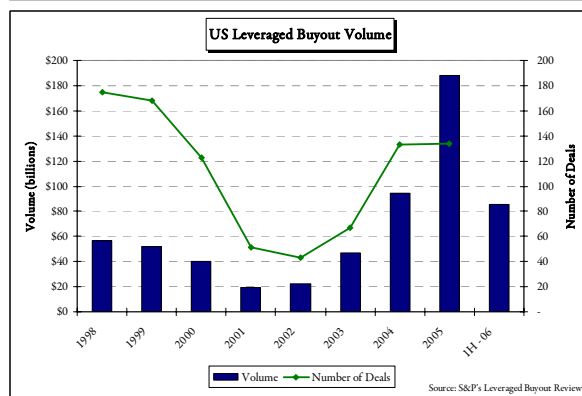
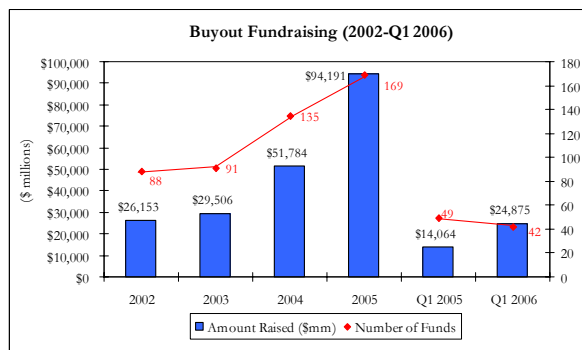
PriceWaterhouseCoopers Money tree report

- 20-25% of the amount private equity firms raised is targeted toward healthcare.
- Private Equity groups have shown strong interest in fragmented segments of healthcare services which are undergoing consolidation.

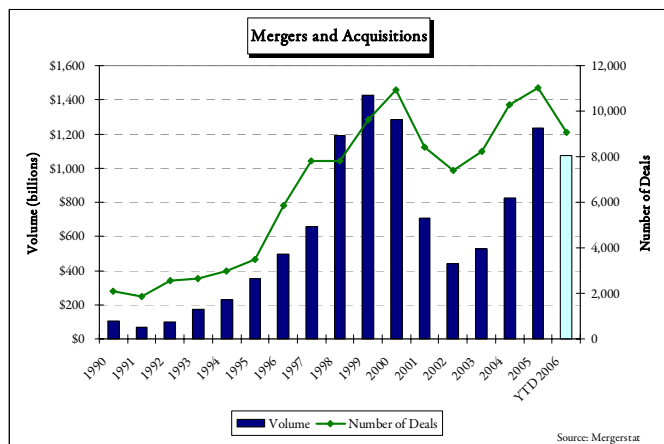
- Sectors receiving the most attention recently are long-term care and home health, a trend we expect to accelerate as demographic shifts and changing CMS philosophy cause previously unattractive sectors to gather momentum.

- In addition, alternate-site providers, healthcare real estate and dental practice management remain highly attractive.

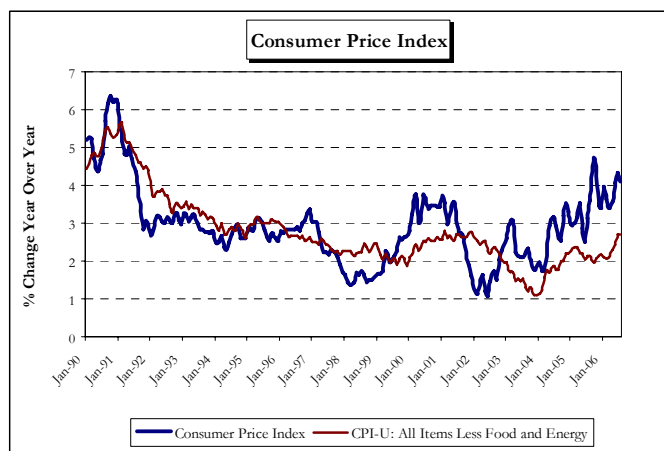
- Active private equity participants include Texas Pacific Group, Bain Capital / KKR/ Merrill Lynch Global Private Equity, JER Partners / Formation Capital and Warburg Pincus & Co.



Capital Markets



Source: Mergerstat



Money Rates	CURRENT	1 MONTH PRIOR	6 MONTH PRIOR
LIBOR	5.38	5.39	5.09
Prime	8.25	8.25	7.75
10-year treasury	4.88	4.80	4.80
A-rated tax exempt 30 year	4.41%	4.35%	4.67%

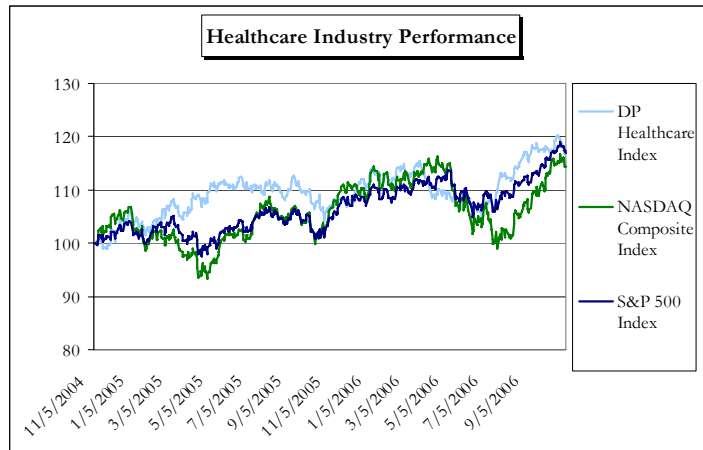
Key rates	CURRENT	1 MONTH PRIOR	3 MONTH PRIOR	6 MONTH PRIOR	1 YEAR PRIOR
Federal Reserve Target Rate	5.25	5.25	5.25	4.75	3.75
3-Month Libor	5.38	5.39	5.51	5.09	4.19
Prime Rate	8.25	8.25	8.25	7.75	6.75
5-Year AAA Banking & Finance	5.32	5.26	5.62	5.56	4.84
10-Year AAA Banking & Finance	5.6	5.58	5.93	5.87	5.16

U.S. Treasuries			
Bills			
	MATURITY DATE	DISCOUNT/YIELD	DISCOUNT/YIELD CHANGE
3-Month	1/18/2007	4.95 / 5.08	0.04 / -.007
6-Month	4/19/2007	4.94 / 5.13	0.04 / -.008
Notes/Bonds			
	COUPON	MATURITY DATE	CURRENT PRICE/YIELD PRICE/YIELD CHANGE
2-Year	4.625	9/30/2008	99-17+ / 4.87 -0.00+ / .007
3-Year	4.875	8/15/2009	100-06 / 4.80 -0.00% / .009
5-Year	4.5	9/30/2011	98-27+ / 4.76 -0.01+ / .009
10-Year	4.875	8/15/2016	100-21½ / 4.79 -0.00+ / .002
30-Year	4.5	2/15/2036	93-21½ / 4.91 0.01 / -.002

Healthcare Sector Summary

Health Care Trends

- U.S. health spending accounts for a larger share of GDP than in any other major industrialized country:
- Total U.S. healthcare expenditures are projected to increase about 7% annually through 2014—from \$1.9 trillion in 2005 to \$3.6 trillion in 2014.
- Health spending in the U.S., at about 16% of GDP in 2005, will grow to about 18.7% by 2014.



Dresner Partners' Healthcare Group has assisted many institutions around the country in understanding the implications of the increasingly fluid and uncertain regulatory, legal and economic environment and has formulated and executed expert strategies to deal with them. We provide financial and tactical advice that enables healthcare providers make informed decisions about their options and understand the value of their strategic assets. We then assist in executing the alternatives an organization decides to pursue.

Our experience spans the full spectrum of healthcare services, ranging from acute care to alternate site services such as home health agencies, ambulatory surgery centers, dialysis providers, diagnostic laboratories, and imaging companies. We also are active in outsourced services and healthcare IT, managed care, and certain medtech sectors. Our role as financial advisor focuses on providing independent and objective advice and seasoned execution, which can be consultative or project driven. We actively track the key industry trends and apply our understanding of these trends as the basis of our advisory services.

Please contact one of our Healthcare Group heads if you would like to discuss how Dresner Partners' can help you reach your financial goals.

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