



Healthcare

Focus



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The Fiscal Year 2009 Budget Proposal

President Bush's proposed FY 2009 budget spares few federal programs from significant cuts. The Centers for Medicare and Medicaid Services (CMS), in its recently released projections of healthcare spending, estimates that current spending levels will double by 2017 and account for approximately 20% of GDP. In an effort to control this growth, the Administration has proposed cuts to annual increases in Medicare and Medicaid programs of \$208 billion over the next five years. A large portion of these cuts will be borne by hospitals. Additionally, nursing homes and home health agencies would also be significantly affected. It is unclear whether areas such as diagnostic imaging and other outpatient services would be affected, but it is widely believed that a Medicare bill, expected in 1H 2008, will detail wide-ranging cuts.

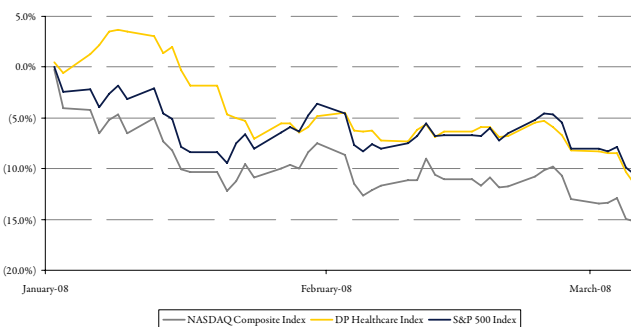
Regulatory developments of note include the proposed bundling of End Stage Renal Disease (ESRD) services, and a revival of the proposed prohibition of physician ownership of hospitals. The SCHIP bill introduced in August 2007 contained a provision related to the prohibition of physician ownership of hospitals. While the SCHIP bill failed to pass, a similar provision has surfaced as part of the Mental Health Parity Bill introduced on March 3. Among other things, the provision prohibits future physician ownership of hospitals and existing physician ownership in hospitals would need to be reduced to 40%. On February 20, CMS, as part of its much-awaited report to Congress, proposed the bundling of ESRD services into one prospective payment system. This structure is estimated to reduce reimbursement to dialysis providers by approximately 2%. Additionally, on March 21, 2008, CMS announced single payment amounts for the first round of the Medicare Durable Medical Equipment, Prosthetics, Orthotics, and Supplies (DMEPOS) competitive bidding program. The program is expected to result in Medicare payments that will be 26% lower for 10 product categories.

Transaction activity continued at 4Q 2007 levels, marked by several bellwether transactions including the \$764 million sale of Radiation Therapy Services to Vestar Capital Partners, the \$420 million sale of Critical Homecare Solutions to MBF Healthcare Advisors, the \$395 million sale of Tender Loving Health Care Services to Amedisys, and the \$350 million sale of Coram to Apria Healthcare Group. Sectors that have been active in the last two quarters showed continued activity; home health, sleep diagnostics, and (more recently) radiology related sectors continue to be in favor among both strategic and financial investors. Facility based services, most notably senior living, showed somewhat reduced volume and significantly compressed valuation multiples, largely resulting from the challenges faced by the debt markets. The acquisition of Great-West Healthcare Holdings by Cigna for \$1.5 billion shows the ongoing consolidation of the payer sector.

In this issue, we spotlight diagnostic imaging. The sector has sustained severe reimbursement challenges since the enactment of the Deficit Reduction Act in January 2007 and appears to be in early stage consolidation, with strategies such as RadNet and Alliance, as well as smaller, private equity backed players attempting to establish new platforms and augment existing ones.

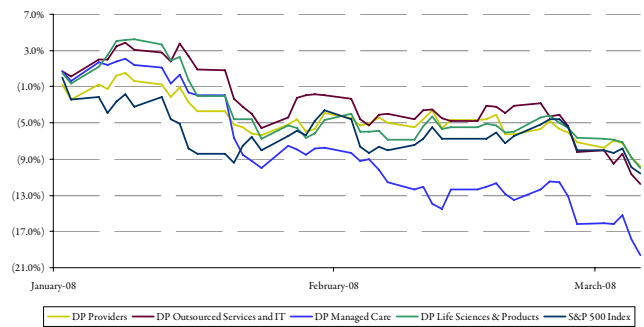
Healthcare Public Market Trends

Industry YTD Return



Source: CapitalIQ

Sector YTD Return



Source: CapitalIQ



HEALTHCARE INDUSTRY DEVELOPMENTS

Recent Transactions & Regulatory Changes

Selected Transactions Q3 2007 - Q1 2008 *

On February 19, 2008, **Amedisys** agreed to acquire **Tender Loving Care Health Care Services**, a home health care agency with operations in over 22 states, for **\$395 million (3.5x Revenue)**.

On February 7, 2008, **MBF Healthcare Advisors** agreed to acquire **Critical Homecare Solutions**, a provider of home healthcare services, from **Kohlberg & Co.** for **\$420 million**.

On January 15, 2008, **Odyssey Healthcare** agreed to acquire **VistaCare**, a provider of hospice services with over 47 programs and 6 inpatient units in 14 states, for **\$145 million (0.5x Revenue)**.

On December 21, 2007, **CML Healthcare Income Fund** acquired **American Radiology Services**, an owner and operator of fixed site diagnostic imaging centers in Maryland, for **\$151 million**.

On November 27, 2007, **GTCR Golder Rauner** acquired the assets of nine hospitals from **Community Health Systems** for approximately **\$315 million (0.8x Revenue)**. The nine hospitals are located in Alabama, Arkansas, Missouri, Tennessee, and Oregon.

On November 26, 2007, **Inverness Medical Innovations** acquired **ParadigmHealth Corporation**, a provider and integrator of care and disease management services, for **\$230 million**.

On November 26, 2007, **Cigna** signed a definitive agreement to acquire **Great-West Healthcare Holdings** from Great-West Life & Annuity Insurance, for approximately **\$1.5 billion (0.6x Revenue)**. Great-West Healthcare's national health care network consists of 4,300 hospitals and over 575,000 physicians.

On November 8, 2007, **Resurgence Health Group** proposed to acquire **SunLink Health Systems**, an owner and operator of seven community hospitals, for **\$56.4 million (0.5x Revenue; 7.7x EBITDA)**.

On October 24, 2007, **Inverness Medical Innovations** acquired **Alere Medical** for **\$302 million (4.9x Revenue)**. Alere Medical offers comprehensive disease management services, primarily to group health plans, for chronic, high-cost diseases.

On October 19, 2007, **Vestar Capital Partners** entered into an agreement to acquire **Radiation Therapy Services** for approximately **\$764 million (2.9x Revenue; 11.8x EBITDA)**. Radiation Therapy Services is the nation's largest radiation-focused operator of freestanding radiation treatment centers.

On October 15, 2007, **Apria Healthcare Group** entered into an agreement to acquire **Coram**, a leading provider of home infusion therapies and an operator of ambulatory suites, for approximately **\$360 million**. The acquisition will expand Apria's service offering by creating the largest nationwide infusion provider.

Areas of healthcare that have shown a significant amount of mergers and acquisitions activity include the **sleep therapy, home healthcare, and radiology related segments**; with three, seven, and nine deals announced in the last two quarters, respectively.

*Source: CapitalIQ, MergerStat & Dresner Partners estimates

Regulatory Update and Other Developments

CMS Releases U.S. Healthcare Spending Projections. CMS projects U.S. spending on health care is expected to double by 2017, reaching \$4.3 trillion and accounting for nearly 20 percent--\$1 for every \$5 spent--of the gross domestic product.

Increased Scrutiny of 501(c)(3), Tax-Exempt, Organizations. In February 2008, the IRS released an expanded set of governance guidelines for tax-exempt organizations. These new guidelines reflect many of the themes stressed by the IRS over the past year including: the importance of an active board; executive compensation; whistleblower protection; board oversight of sophisticated investment vehicles; procedures relating to minute taking and document retention; director independence; and, the adoption of formal governance policies.

Prohibition on Physician Ownership of Hospitals. On August 1, 2007, the US House of Representatives attempted to pass, as part of the SCHIP bill, legislation which would ban future physician ownership of hospitals. This legislation did not pass, and has now resurfaced in the Mental Health Parity Bill introduced in the House on March 3, 2008. Existing hospitals would initially be grandfathered; however, the grandfathered hospitals would need to reduce their physician-ownership to no more than 40 percent within 18 months.

President's FY 2009 \$3 Trillion Budget - Reduces Medicare and Medicaid Spending by Over \$200 Billion Over the Next Five Years. On February 4, the White House announced President Bush's budget plan for 2009. Part of a broader \$3 trillion plan, the budget proposes total outlays of approximately \$737 billion for the Department of Health and Human Services (HHS), a slight increase of \$29 billion from 2008. However, the President's 2009 budget proposes reducing federal spending for mandatory programs by \$208 billion over the next five years. The savings is to be achieved primarily through Medicare spending reductions, over the five-year period, of approximately \$173 billion. The plan proposes to reduce Medicaid spending by approximately \$46.7 billion over the next ten years. While initially providing increased funding, budget levels will fall below their current levels (adjusted for inflation) by approximately 8.7% (14.4%) by 2013.

Competitive Bidding Process for Durable Medical Equipment. On March 21, 2008, CMS announced single payment amounts for the first round of the DMEPOS competitive bidding program. Under the program, the single payment amount will become the Medicare allowed payment amount for the competitive bidding items for beneficiaries who reside in select metropolitan areas. The DMEPOS Competitive Bidding Program was created by the Medicare Prescription Drug, Improvement and Modernization Act of 2003. The Act requires that CMS replace the current DMEPOS payment system for select, highly utilized supplies with a competitive bidding process. Generally, suppliers in a competitive bidding area bid to supply the covered items, with the winning bids used to establish a Single Payment Amount ("SPA") for each item. Those winning bidders who sign contracts must agree, among other conditions, to be compensated at the SPA rate for each item.

CMS sends ESRD bundling report to Congress. On February 20, 2007, the Centers for Medicare & Medicaid Services sent its much-anticipated report to Congress regarding bundling all ESRD services into one prospective payment system. The report calls for the establishment of a base treatment payment rate for a dialysis session. The payment would include the current composite rate as well as items that are currently billed separately. This proposal structure will result in a downward impact of approximately 2% to dialysis providers.

HEALTHCARE SECTOR SPOTLIGHT

Diagnostic Imaging

Industry Overview

The diagnostic imaging industry has shown consistent growth over the last eight years, with scan volume growing from 13.3 million procedures in 1999 to 28.5 million procedures in 2006. Industry revenues in 2008 are estimated to be over \$100 billion and are expected to show continued growth over the next several years. While the industry recently has endured severe regulatory challenges, it enjoys strong fundamentals—positive demographic trends and technological advances—that are expected to drive unit-volume growth well into the next decade.

The imaging sector is highly fragmented, with a significant percentage of centers being independently owned and not affiliated with multi-center providers or hospitals. The Deficit Reduction Act of 2005, which went into effect on January 1, 2007 and mandated reimbursement cuts across all modalities, has accelerated the bifurcation of the industry into two broad classes of operator: (1) financially stable operators with strong balance sheets, particularly regional operators and multi-site local operators, with established networks; and (2) marginal players, particularly single-site operators, that are vulnerable to reimbursement pressure and which face an increasingly challenging competitive position.

We expect further reimbursement challenges for the imaging industry in 2008 and beyond. The President's FY 2009 budget proposes a slight increase (\$29 billion) in spending in 2009, but a reduction in the growth of government programs of \$208 billion over five years, \$173 billion of which will come from Medicare. By 2013, inflation-adjusted funding levels for healthcare will be \$8.7 billion below current levels.

On the positive side, as an indication of CMS's new, somewhat forward-looking philosophy, CMS recently announced that reimbursement levels for Cardiac Computed Tomography Angiography (CCTA), an emerging procedure that eliminates the need for invasive diagnosis of heart disease, would be left unchanged at this time.

Impact

In summary, strong underlying fundamentals and accelerating consolidation present significant long-term opportunities for both strategic and financial investors.

Diagnostic Imaging Statistics

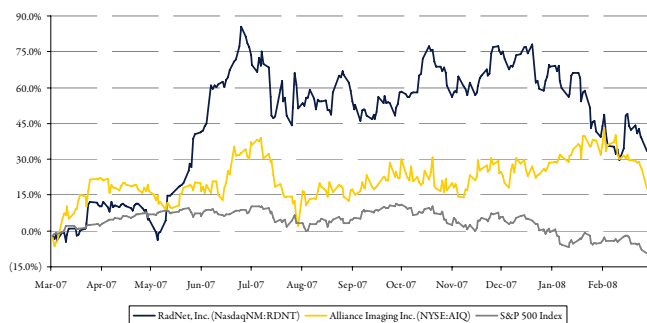
Public Company Trading Statistics

(\$ in millions, except per share data)

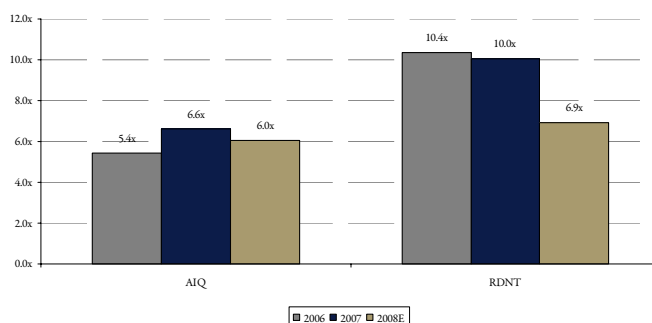
Company Name	3/5/2008		TEV	LTM Revenue	LTM EBITDA	Enterprise Value to:							
	Stock Price	Market Cap				Revenue		EBITDA		EBIT		Price To:	
						LTM	2008E	LTM	2008E	LTM	2008E	LTM EPS	2008E EPS
Alliance Imaging Inc. (NYSE:AIQ)	\$9.59	454.2	1,010.4	444.9	152.4	2.3x	2.1x	6.6x	6.0x	15.7x	13.4x	30.9x	28.2x
RadNet, Inc. (NasdaqNM:RDNT)	\$7.94	264.8	683.5	395.7	68.1	1.7x	1.4x	10.0x	6.9x	24.2x	14.0x	nm	41.8x

High	2.3x	2.1x	10.0x	6.9x	24.2x	14.0x	30.9x	41.8x
Low	1.7x	1.4x	6.6x	6.0x	15.7x	13.4x	30.9x	28.2x
Mean	2.0x	1.8x	8.3x	6.5x	20.0x	13.7x	30.9x	35.0x
Median	2.0x	1.8x	8.3x	6.5x	20.0x	13.7x	30.9x	35.0x

Diagnostic Imaging Equity Market Performance

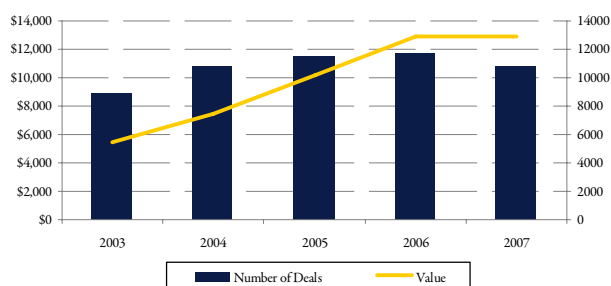


Diagnostic Imaging EV / EBITDA Multiples



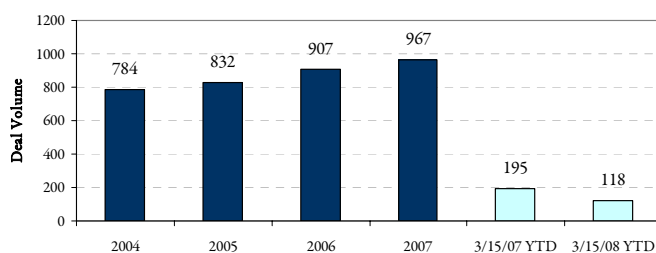
Capital Markets

U.S. M&A Activity



Source: CapitalIQ

Healthcare M&A Volume



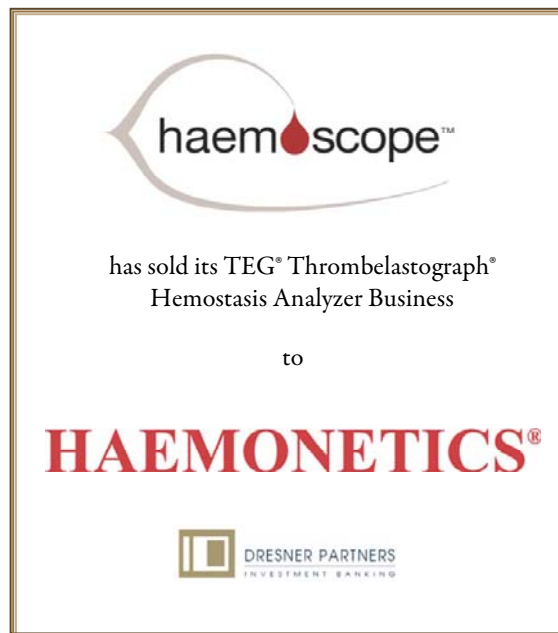
Source: CapitalIQ

Dresner Transaction Spotlight

**Dresner Partners Advises Haemoscope in Divestiture of its
TEG® Thrombelastograph® Hemostasis Analyzer Business**

November 20, 2007 - Dresner Partners acted as exclusive financial advisor to Haemoscope Corporation in the divestiture of its TEG® Thrombelastograph® Hemostasis Analyzer business for \$44 million in cash.

Haemoscope Corporation is a provider of blood hemostasis monitoring systems. The TEG system can predict a patient's risk of bleeding and thrombotic complications. With this knowledge, surgeons can plan a patient's treatment to support the best possible clinical outcome. Improved clinical outcomes can lead to lower hospital costs through reduced transfusion and related adverse effects, as well as shorter ICU and hospital stays.



Dresner Partners Healthcare Group



The professionals of Dresner Partners' Healthcare Group have advised institutions, corporations, and business owners around the country in executing strategic transactions such as a company or divisional sale, strategic acquisition, or a private placement. We provide financial and strategic advice that enables companies and their owners to make informed decisions about their options and understand the value of their strategic assets. We assist companies in executing their financial and strategic alternatives.

Our role as financial advisor requires independent and objective advice and seasoned execution. Please contact one of our Healthcare Group leaders to discuss how our experience can help you.

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