



# Healthcare

## Focus



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### Healthcare Activity and Outlook

For a number of reasons, we expect healthcare transaction activity in 2009 to be robust in a generally declining market. Areas with the highest level of activity include biotech, pharmaceuticals and devices, with continuing but slightly diminished activity in facility-based services. Healthcare in general is less impacted by macro activity levels, and therefore, is viewed as a defensive investment play. Further, the general push towards efficiency and greater access will create merger, restructuring, acquisition and financing opportunities. Transactions may be more difficult to complete, but demand will likely remain high. This cautious optimism is supported by the recent trends in the public markets (see below).

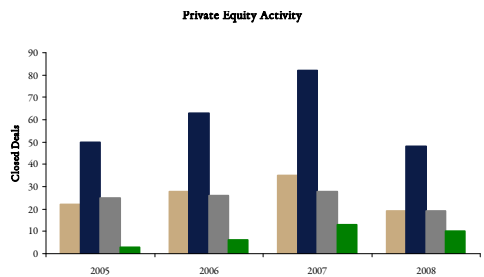
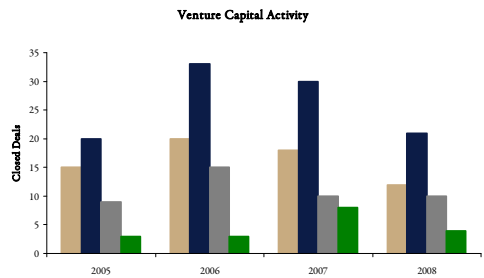
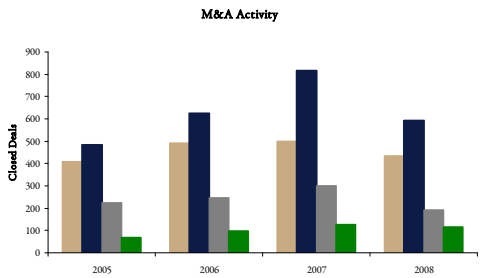
We believe that activity in 1Q and 2Q 2009 primarily will be driven by strategic players that have been conserving cash, merger candidates that require rescue through merger with more efficient operators, synergistic buyers, and those that are motivated by growth. Private equity funds have had success in raising new funds even through 2Q 2008 and will feel compelled to deploy capital through over-equitized structures. Those with a more generalist approach will avoid reimbursement risk situations. Those with more of a strategic approach will gladly participate in sectors with reimbursement risk through consolidation and other strategies. In addition, the highly restrictive debt markets will likely give way to less traditional financing structures (e.g. combinations of mergers and financings, vendor financings, and creative asset finance structuring). We also have found that many of our hospital clients are resorting to selling non-strategic assets, including business operations that are embedded within the enterprise.

#### Healthcare Policy Reform

Former Senate Majority Leader Tom Daschle's nomination as the head of the Department of Health and Human Services ends speculation, but injects a measure of controversy into the approach to reforming this 15+ percent piece of the GDP known as healthcare. Daschle, viewed as one who believes in a collaborative approach to healthcare policy reform (the involvement of the White House, Congress and major healthcare interest groups, most notably physicians), has provided a window into his ideas through his book, *Critical: What We Can Do About the Health-Care Crisis* (published February 2008). Among Daschle's key strategies:

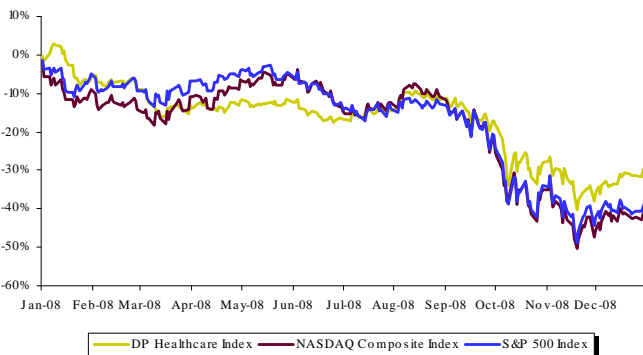
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■ Biotechnology and Pharmaceuticals ■ Healthcare Equipment  
 ■ Healthcare Facilities and Services ■ Healthcare Technology



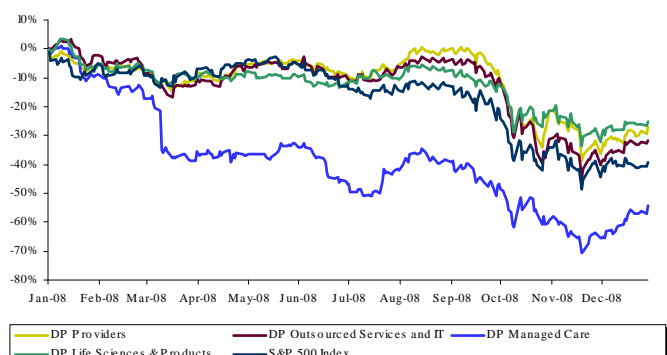
### Healthcare Public Market Trends

Industry Return



Source: CapitalIQ

Sector Return



Source: CapitalIQ



# HEALTHCARE INDUSTRY DEVELOPMENTS

## Recent Transactions & Regulatory Changes

### Select Recent Transactions \*

On December 30, 2008, **Eclipsys Corp.** announced its acquisition of **Premise Corporation**, an integrated and clinically-focused software solutions company, from a group of institutional investors for **\$39 million**.

On December 22, 2008, **St. Jude Medical Inc.** acquired **MediGuide Ltd.**, a medical device company that develops tracking and imaging technologies for cardiovascular and endovascular applications, from Boston Scientific Corp. for **\$300 million**.

On December 8, 2008, **JLL Partners** announced its acquisition of **Patheon, Inc.**, a provider of commercial manufacturing and pharmaceutical development services, for **\$537 million (0.7x Revenue; 6.4x EBITDA)**.

On December 1, 2008, **Johnson & Johnson** entered into an agreement to acquire **Mentor Corp.**, a developer, manufacturer, licensor and marketer of products for the aesthetic and general surgery markets, from Vontobel Invest for **\$1.2 billion (2.9x Revenue; 13.3x EBITDA)**.

On December 1, 2008, **Senior Care Centers of America, Inc.** announced its acquisition of **Crozer Adult Day Health Center**, a care center for elderly and disabled adults, from Crozer-Keystone Health System for an undisclosed amount.

On November 25, 2008, **Renal Advantage, Inc.** acquired **National Renal Alliance, LLC**, an operator of dialysis facilities throughout the United States, from Warwick Group, Inc. and Fifth Street Capital LLC for an undisclosed amount.

On November 23, 2008, **Johnson & Johnson** entered into an agreement to acquire **Omxix Biopharmaceuticals, Inc.**, a biopharmaceutical developer, manufacturer and marketer, from a group of institutional investors for **\$433 million (4.5x Revenue)**.

On November 10, 2008, **Endocare Inc.** announced its acquisition of **Galil Medical Ltd.**, a medical device company which develops, manufactures and markets cryotherapy systems, from a group of institutional investors for **\$97 million**.

On October 21, 2008, **LivHOME, Inc.** acquired **AllianceCare Inc.**, a provider of senior healthcare services in home, rehabilitation, independent and assisted living communities, for an undisclosed amount.

On October 17, 2008, **EmCare, Inc.** entered into an agreement to acquire **Templeton Readings, LLC**, a provider of teleradiology reading solutions, for an undisclosed amount.

On October 10, 2008, **HealthTronics Inc.** announced its acquisition of **Ocean Radiation Therapy, Inc.**, a provider of image guided radiation therapy technical services to cancer treatment centers, from Atlantic Urological Associates P.A. for **\$35 million**.

On September 4, 2008, **Zimmer Inc.** entered into an agreement to acquire **Abbott Spine, Inc.**, a manufacturer and distributor of spinal implant products, from Abbott Laboratories for **\$360 million (3.3x Revenue)**.

On September 2, 2008, **Health Care REIT Inc.** acquired **29 Senior Housing Properties**, a compilation of assisted living, Alzheimer's care and independent living units, from Arcapita Inc. for **\$644 million**.

On July 23, 2008, **General Electric Co.** entered into an agreement to acquire **Vital Signs Inc.**, a manufacturer of medical equipment for the anesthesia, respiratory/critical care, interventional cardiology/radiology and sleep disorder markets worldwide, for **\$1.0 billion (4.0x Revenue; 17.1x EBITDA)**.

On June 18, 2008, **The Blackstone Group** announced its acquisition of **Apria Healthcare Group Inc.**, a medical equipment provider for the home healthcare segment, from a group of institutional investors for **\$1.6 billion (0.9x Revenue; 5.3x EBITDA)**.

Segments of the healthcare industry that have shown a significant amount of merger and acquisition activity in the last quarter include: **pharmaceuticals, biotechnology and medical device manufacturers**.

### Regulatory Update and Other Developments

**Congress Approves Medicare/Medicaid Changes.** On July 15, 2008, Congress approved the Medicare Improvements for Patients and Providers Act of 2008 (H.R. 6331). Five major provisions of the Act include:

**Postponement of the Planned Physician Fee Cut.** The primary provision of the legislation is the postponement of a scheduled physician fee cut, which keeps the Centers for Medicare & Medicaid Services from implementing a 10.6% reduction in Medicare payment amounts for physician services. Therefore, physician reimbursement for the rest of 2008 will be maintained at the same level as set for the first half of the year and further avoids reimbursement fall-off in 2009 by providing a 1.1% update to reimbursement rates. This provision definitely satisfies physicians as it keeps their reimbursement at current levels but also benefits patients as physicians are not given further reason to deny patients relying on Medicare for health care services. In opposition, the managed care organizations are being forced to bear the costs resulting from postponing the physician fee cut.

**Delay of the DMEPOS Competitive Acquisition Program.** The MMA required the Centers for Medicare & Medicaid Services (CMS) to implement a competitive acquisition program to establish reimbursement rates for select items of durable medical equipment, prosthetics, orthotics, and supplies. CMS implemented the program on July 1, 2008, in ten selected markets. This legislation delays this bidding program and requires CMS to terminate all contracts awarded prior to the new Medicare legislation and forbids CMS from making payments on such contracts. This legislation was welcomed by DME providers as the majority of smaller businesses in this sector and large companies that did not meet the program requirements for enrolling, and hence were not awarded contracts, would be forced to go out of business in lieu of the original program. CMS is now required to rebid in 2009 all previously awarded contracts and postpone the expansion of the competitive acquisition program to 2011. In addition, Medicare payments for the items specified in the program will be cut 9.5% in order to limit expenditures.

**Reduction in the Copayment Rates for Mental Health Services.** The new Medicare law reduces the copayment rate for mental health services from 50% to 20%. The decrease in the copayment rate for beneficiaries will be phased in over a six year period. This provision equates the copayment rate for mental health services with that for other health services.

**Provision for Diagnostic Imaging Services Accreditation.** In recent years, increasing expenditures for diagnostic imaging have been a concern for Congress and CMS. Congress outlawed physician self-referrals to minimize this growing expense. This Medicare Act further limits physician's ability to take advantage of imaging reimbursements by stipulating that reimbursement for diagnostic imaging will only go to suppliers that are accredited by an approved accrediting organization. The accreditation will apply to diagnostic MRI, CT, and nuclear medicine. The act further addresses timing requirements by indicating that accrediting organizations must be selected by January 1, 2010, and the actual Act will become effective in January of 2012.

**Prompt-Pay Requirements.** An adoption of a prompt-pay standard for clean claims becomes effective in the 2008 benefit year. This provision requires Medicare Part D plan sponsors to pay electronic claims within fourteen days and paper claims within thirty days of receipt from pharmacies.

**Inpatient Prospective Payment System Rule (IPPS Rule).** CMS has issued a rule that is making profound changes to the Stark Law, once again, which became effective October 1, 2008.

\*Source: CapitalIQ, MergerStat & Dresner Partners estimates

# HEALTHCARE SECTOR SPOTLIGHT

## Durable Medical Equipment

### Industry Overview

The home medical equipment (HME) industry has experienced high single digit growth in recent years. The home medical equipment and services sector is estimated to be a \$17 billion dollar industry. This market consists of home respiratory equipment, home infusion therapy equipment, and durable medical equipment. Durable medical equipment (DME), the smallest of the three subdivisions, makes up 18% of the HME industry. Specifically, DME is a \$3 billion dollar industry, expected to grow at a rate of 4% annually. While the industry recently has endured severe regulatory changes and speculation, it enjoys strong fundamentals (positive demographic trends and technological advances) that are expected to drive unit-volume growth into the future.

The durable medical equipment sector is highly fragmented, with a majority of providers consisting of local and regional players, as capital expenditures and barriers to entry are relatively minimal. Legislative rulings have been making the environment more competitive over the past ten years as reimbursement rates have been decreasing. The Deficit Reduction Act of 2005 instituted a 36-month cap on oxygen equipment beginning January 1, 2006. Beginning in 2009, previously reimbursed oxygen equipment (that reached the 36-month threshold) will be transferred to the beneficiary, eliminating further reimbursement revenue for the company. In addition, another legislative

ruling applying negative pressure to reimbursement rates is the DMEPOS competitive bidding program. Even though it has been delayed 18 months, a 9.5% reimbursement cut will be implemented at the beginning of 2009. When the bidding program does take effect in 2009, the newly bid upon rates are expected to be 25-30% less than current reimbursement rates. This newest legislation, coupled with the past rate cuts, will provide an increasingly competitive environment where companies that are not able to withstand the pricing pressure will lose their market share.

We expect further challenges for DME providers regarding reimbursement rates in the future as the President's proposed budget includes \$178 billion in reductions to Medicare expenditures in FY 2009-2013.

### Impact

In summary, strong underlying fundamentals and increasing consolidation present long-term opportunities for both strategic and financial investors that are able to weather the credit crisis and the legislative storm.

## Durable Medical Equipment Statistics

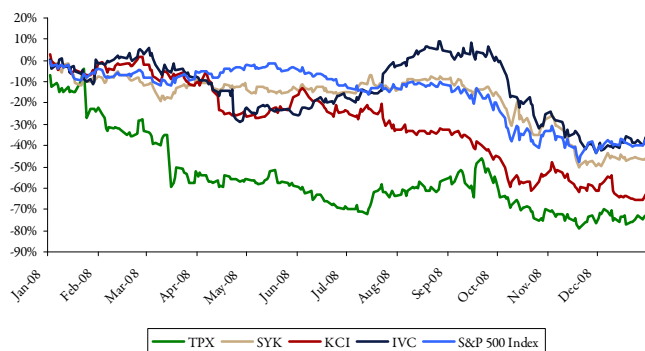
### Public Company Trading Statistics

(\$ in millions, except per share data)

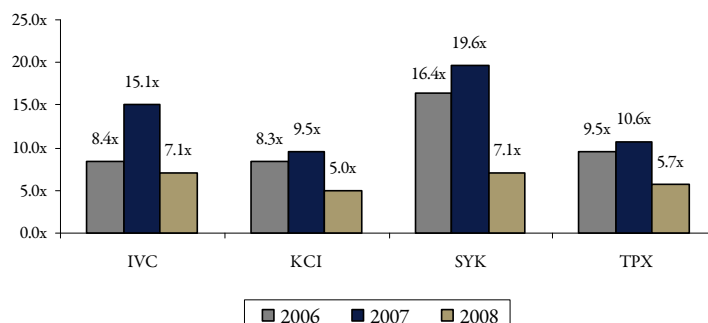
Company Name	12/10/2008			Enterprise Value to:								
	Stock Price	Market Cap	TEV	LTM		Revenue		EBITDA		EBIT		
				Revenue	EBITDA	EBIT	LTM	2008E	LTM	2008E	LTM	2008E
Invacare Corp. (NYSE:IVC)	\$15.70	498.9	969.6	1,752.0	136.6	91.9	0.6x	0.5x	7.1x	7.1x	10.5x	10.5x
Kinetic Concepts Inc. (NYSE:KCI)	\$19.97	1,377.5	2,872.2	1,819.0	540.0	427.0	1.6x	1.5x	5.3x	5.0x	6.7x	6.5x
Stryker Corp. (NYSE:SYK)	\$41.24	16,129.2	13,942.9	6,658.1	1,901.6	1,511.6	2.1x	2.0x	7.3x	7.1x	9.2x	8.8x
Tempur Pedic International Inc. (NYSE:TPX)	\$7.43	530.6	961.6	1,027.7	209.2	176.2	0.9x	1.0x	4.6x	5.7x	5.5x	nm

High	2.1x	2.0x	7.3x	7.1x	10.5x	10.5x
Low	0.6x	0.5x	5.3x	5.0x	6.7x	6.5x
Mean	1.4x	1.4x	6.6x	6.4x	8.8x	8.6x
Median	1.6x	1.5x	7.1x	7.1x	9.2x	8.8x

### Durable Medical Equipment Equity Market Performance

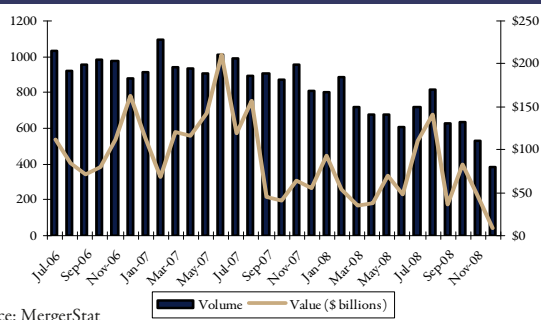


### Durable Medical Equipment EV / EBITDA Multiples

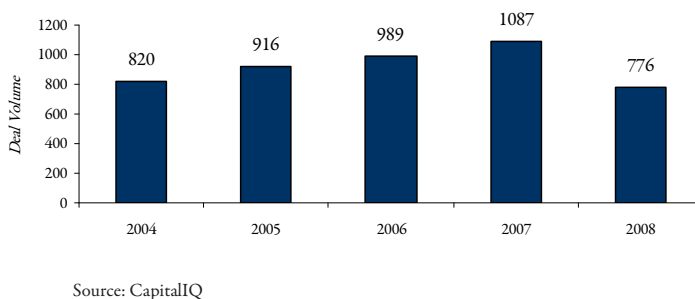


## Capital Markets

### U.S. M&A Activity



### Healthcare M&A Volume



# DRESNER PARTNERS

## HEALTHCARE GROUP

(Cont. from page 1)

- Creating a Federal Health Board, modeled after the Federal Reserve, which would have the absolute authority to set policy for government-funded programs such as Medicare, and which would be immune to political influence. Such policy would serve as a benchmark for the entire industry.
- Mandating insurance coverage for all Americans and the creation of an insurance pool to achieve that end. This goes beyond President-elect Obama's mandate for coverage limited to children.
- Allowing Americans to keep their current insurance benefits if they are satisfied with them.

Daschle's overall strategy appears to have elements of short- to mid-term stabilization of the healthcare system, while allowing market-based forces to shape the system in the long-term. We believe that, notwithstanding the need for stabilization and greater access, all parties are rapidly converging to the realization that the fundamental issue of the current inefficiency in

the healthcare delivery system must be addressed aggressively. One aspect of this issue is the not-for-profit sector; we believe that a renewed effort to reform the not-for-profit sector—which accounts for at least 75% of the licensed acute care beds in the country—is inevitable and will accelerate the strategic repositioning of the inpatient and post-acute sectors.

### Sectors to Watch

We expect continued activity in sectors which do not have direct reimbursement risk and which focus on efficient delivery with enhanced clinical outcomes: disease management with elements of prevention; technologies that enable patient flow out of inpatient setting, e.g. telemetry; technologies that focus on earlier detection as well as post-treatment monitoring to prevent repeat treatment; and non-invasive surgery and related device development. We believe that, in contrast to the last decade, managed care companies will drive significant change toward a highly efficient healthcare delivery system.

## Dresner Partners Healthcare Service Offering

Dresner Partners has served healthcare clients (both for-profit and not-for-profit) for over 15 years, completing many transactions in a variety of sub-sectors in the industry. Dresner recognizes the potential in the trillion dollar healthcare industry, which continues to grow at a rapid pace. Trends such as the aging population, rising life expectancy, continued focus on research and development, and increasing liabilities costs for providers make it an attractive industry for significant investment.



Dresner's financial advisory services to the healthcare sector are configured to provide advice beyond the traditional transactional function. Our practice seeks to provide advice that focuses on long-term value creation as opposed to short-term expediency. Our diverse experience enables us to offer valuable perspective to each client's unique needs.

Dresner Partners is currently advising clients on multiple transactions within the healthcare sector and is actively working on buy-side, sell-side, and capital raise transactions. Our experience and capabilities include mergers and acquisitions advisory and capital raising, as well as strategic consulting, valuation services and restructuring.

## Deal Spotlight

## 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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