

# HEALTHCARE FOCUS

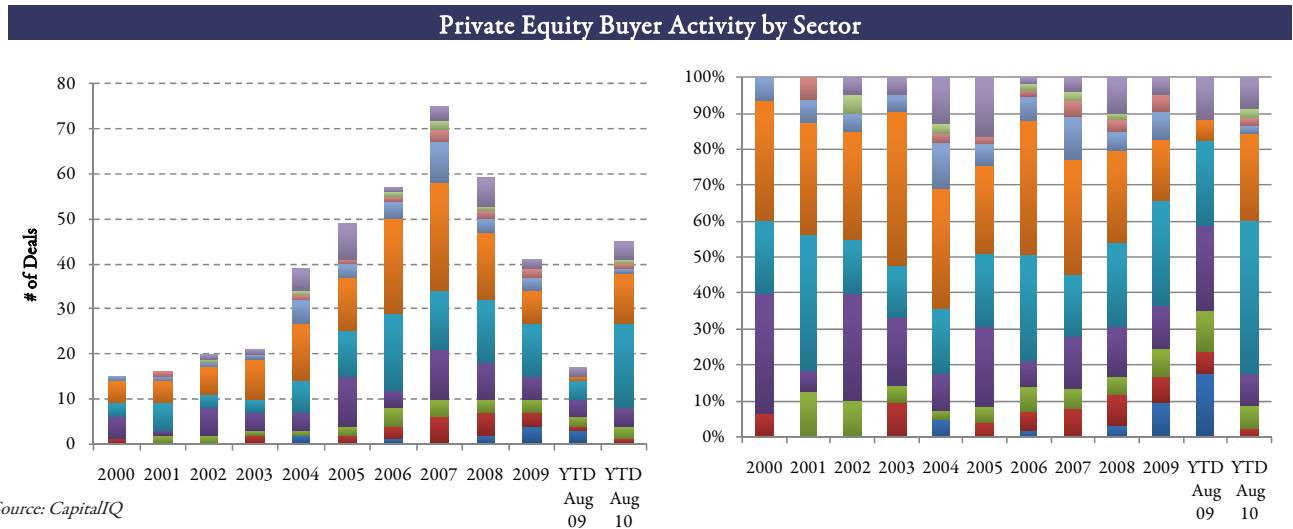
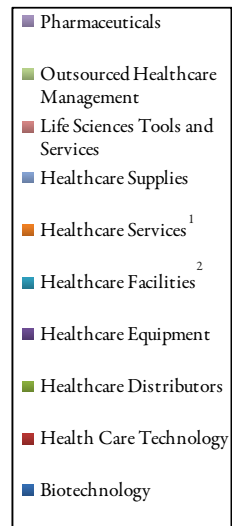


## Trends in Capital Flows into Healthcare

Since the start of the recession (in December 2007, according to the *National Bureau of Economic Research*), most of us have been subjected to the sustained anguish of having to see the familiar graphic representing the rise from 2003 to a peak in 2007, followed by a plunge thereafter. In most cases, the “curve” represents the broader market across all industry sectors and is tracked in the hope that it begins to show a durable upward trend. In this issue of *Healthcare Focus*, we intend no such anguish, and instead, provide a perspective from the standpoint of transaction activity (and corresponding capital flows) into specific subsectors of healthcare, with the goal of identifying trends that may continue to develop as result of momentum (i.e. subsectors that are likely to show continued growth). We have focused on transaction volume for private equity funds, strategic buyers and venture funds, and review the number of transactions and proportional volume for each source in order to understand where the “pendulum” currently is and which way it may be expected to swing (against the backdrop of continued reimbursement uncertainty and the phased implementation of the Patient Protection and Affordable Care Act).

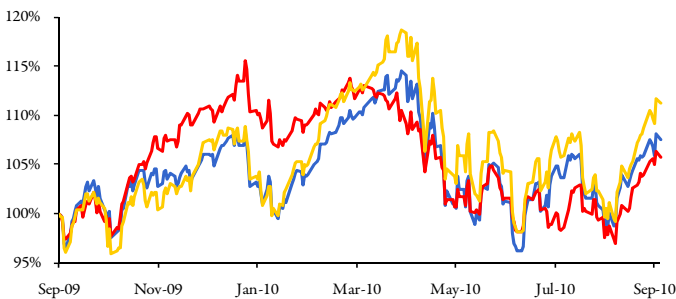
### Private Equity Funds

Overall transaction activity is up sharply after falling more than 40% from 2007 to 2009—YTD 2010 is 165% higher than the same period in 2009 and annualized 2010 is 65% higher than 2009 (almost as high as 2007). The largest growth since 2007 has been in facility-based healthcare (both inpatient and outpatient); this is a reversal of the trend leading up to the peak in 2007 when private equity investment into facilities showed a flat-to-declining trend.



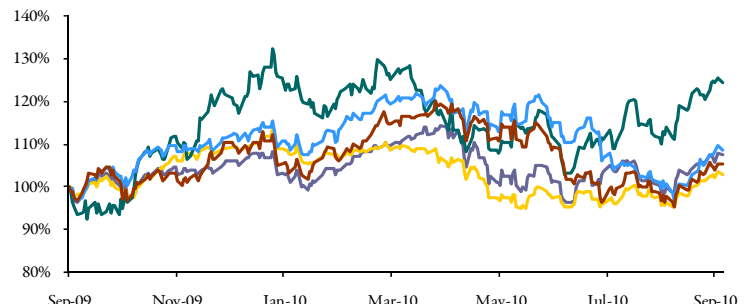
## Healthcare Public Market Trends

### Industry Returns



Source: CapitalIQ  
 — S&P 500 — DP Healthcare Index — NASDAQ Composite Index

### Sector Returns



Source: CapitalIQ  
 — S&P 500 — DP Life Science Products — DP Outsourced Services and IT — DP Providers — DP Managed Care

1. Includes diagnostics, physician practices, and onsite services  
 2. Includes all inpatient and outpatient facilities, and senior living

# HEALTHCARE INDUSTRY DEVELOPMENTS

## Trends in Capital Flows into Healthcare (cont.)

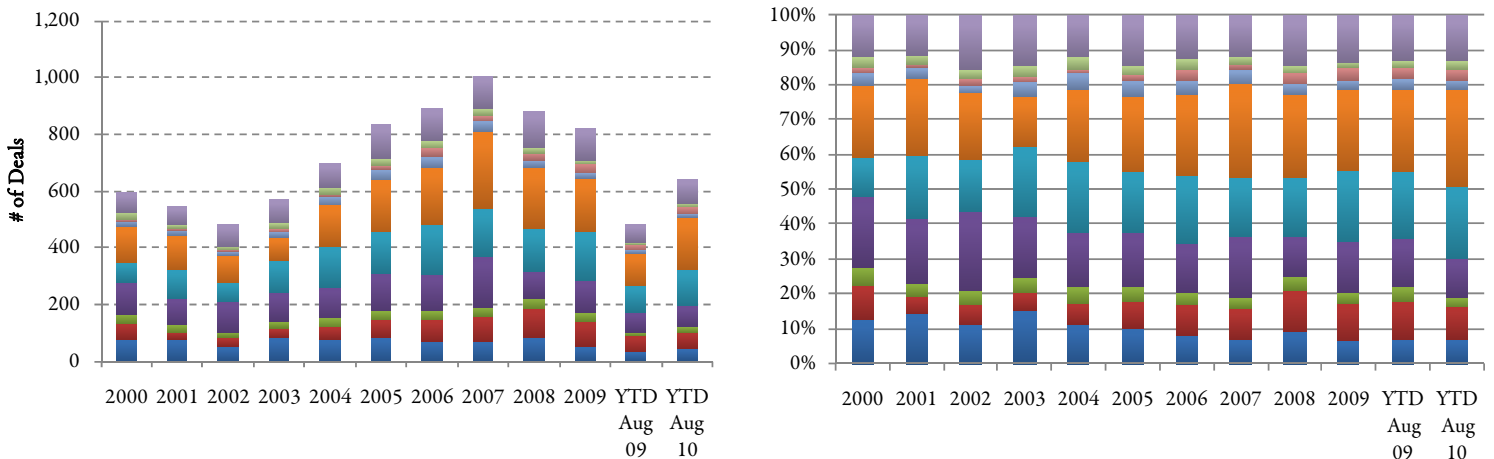
Facilities related transactions for YTD 2010 represent 42% of healthcare M&A volume, compared to only 17% in 2007. Private equity traditionally has gravitated toward non-facility healthcare services (with the exception of 2001 and 2006), and while there are signs of growth, this subsector is only 24% of the total investment (by number of deals) so far in 2010 compared to 32% in 2007. Private equity investment into healthcare equipment and supplies appears to be declining. As the second-largest source of capital after strategic buyers, private equity transaction volume as a percentage of the combined private equity and strategic buyer volume has varied from a low of 6.5% in 2009 to a high of 11.2% in 2007, with private equity accounting for only 7.1% of volume so far 2010, showing an improving trend though still below the 2003 to 2007 period.

We expect that due to a high level of uninvested capital, depressed real estate values, continued vagaries of the senior debt market, and a repositioning of the facility based delivery model (partly as a result of healthcare reform), we expect private equity investment into facility based care, particularly senior living, post-acute and transitional care, rehabilitation, and behavioral health to continue to show a rising trend in the short term. However, we expect that in the mid term, this will give way to a rising trend in private equity flows into businesses and subsectors that introduce connectivity, efficiency and cost reduction in the healthcare delivery model, as well as outsourced services with indirect reimbursement risk. Technology enabled opportunities will be of the greatest interest.

### Strategic Buyers

Overall transaction activity for strategic buyers declined approximately 19% from 2007 to 2009, but, like private equity, it is up considerably so far in 2010—YTD 2010 is 33% higher than the same period in 2009 and is 17% (annualized) higher than 2009 (just below 2007). In contrast to private equity, transaction activity in most subsectors has not shown any dramatic trend since 2007, with only non-facility based services showing a shallow rise in the proportion of total strategic transaction activity. The drop in the proportion of private equity transaction activity in 2007 from 11.2% of the combined private equity and strategic activity to 9.1% in 2008 and then to 6.5% in 2009 signaled an acceleration in strategic buyer activity during that period. However, with private equity activity at 7.1% (YTD 2010), this trend appears to be reversing and the growth in strategic buyer activity relative to private equity again appears to be slowing as it did in the 2000 to 2007 period. With the larger strategic buyers as awash in uninvested cash as private equity investors, we expect that strategic buyers will have an edge over private equity investors for the most desirable opportunities because of both potential synergies and their ability (and willingness) to pay higher multiples. The frustration faced by strategic buyers in the 2006—2007 period against private equity investors enjoying the abundance of cheap debt is unlikely to be repeated in the near term.

Strategic Buyer Activity by Sector



Source: CapitalIQ

We expect transaction activity in all subsectors to increase sharply and proportionally. The highest growth/activity levels are likely to be in subsectors where there are significant consolidation opportunities such as: home health and hospice, retail and institutional pharmacies, outpatient rehabilitation, diagnostic laboratories and imaging. Another trend that is emerging in the strategic buyer class is vertical integration, partly driven by depressed multiples and desire for control over critical technologies.

# HEALTHCARE INDUSTRY DEVELOPMENTS

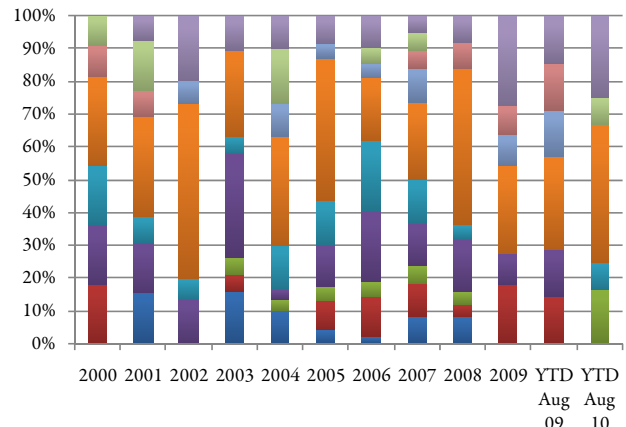
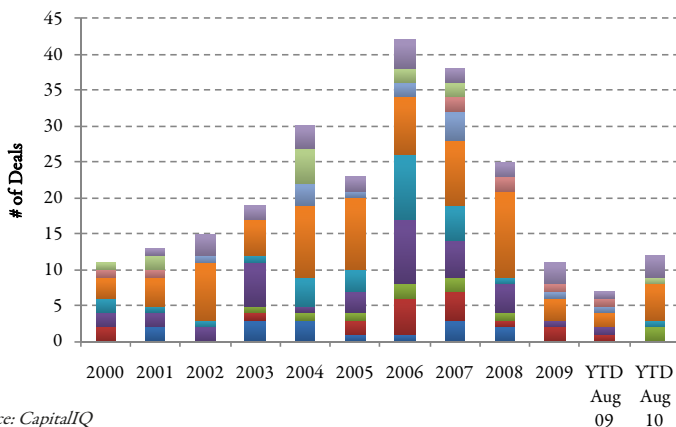
## Trends in Capital Flows into Healthcare (cont.)

### Venture Investors

The most dramatic drop in transaction volume was in the venture class—volume dropped over 70% from 2007 to 2009. While there are signs of recovery, volume is unlikely to show a robust recovery, partly due to a weak IPO market that continues to impact exit strategies. In contrast to private equity funds, venture funds are facing a dramatic decline in capital commitments from traditional capital sources that were actively investing in alternative investment vehicles in 2006—2007. A consequence of this is a shift in the proportion of venture capital to later-stage investments, with more than 50% of funding going into C+ rounds<sup>1</sup>. Additionally, since 2006, there has been a steady shift of VC funding into medical devices, with a corresponding decline in the proportion of funding going into biotechnology. We are also seeing a rising trend in the participation of notable research institutions in the funding of early stage ventures.

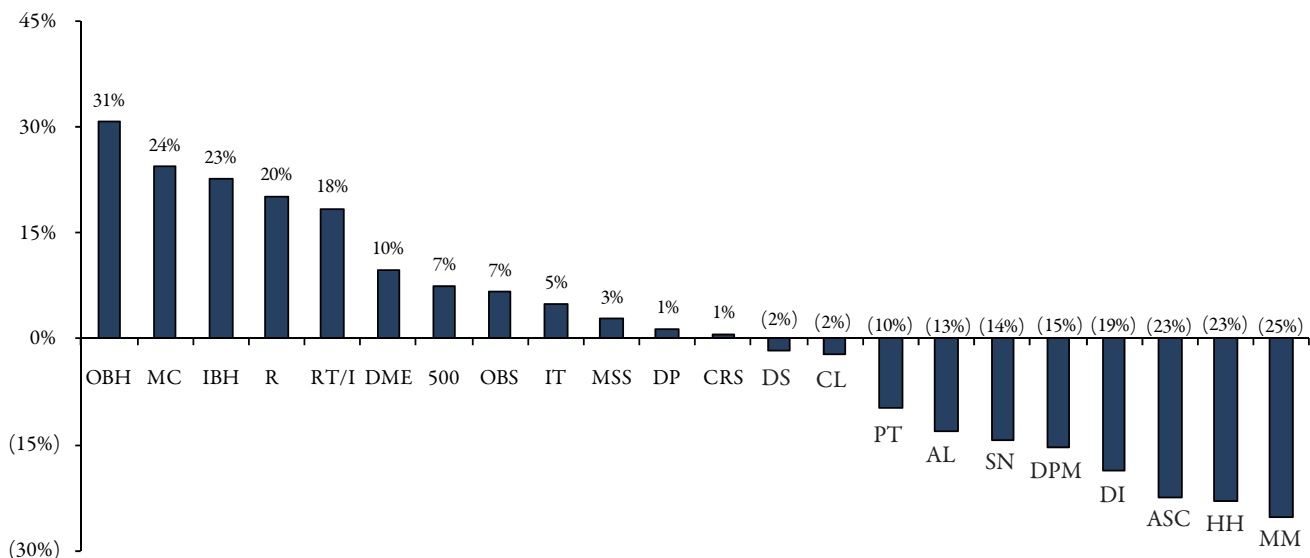
Healthcare venture activity is likely to remain tepid in the near future. The concentration of sources of venture capital funding in a handful of states—75% is in California, Massachusetts, Washington and Georgia—as well as a challenging FDA approval process, adds to the uncertainty of future healthcare venture capital transaction activity.

### Venture Capital Buyer Activity by Sector



Source: CapitalIQ

### 1-Year Stock Returns by Sector



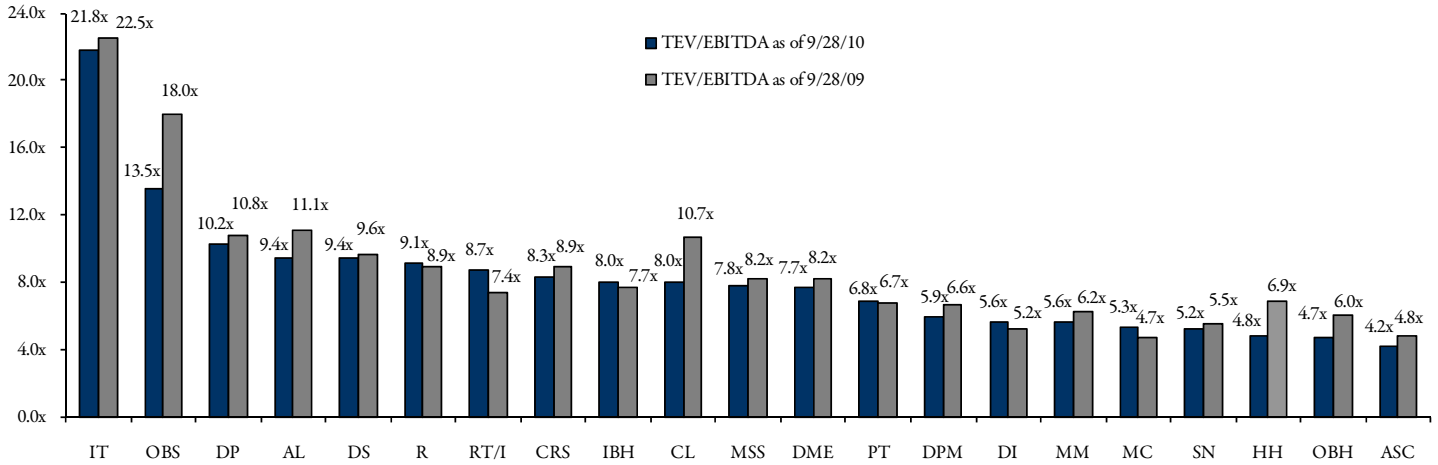
500 - S&P 500	DI - Diagnostic Imaging	HH - Home Health	MSS - Medical & Surgical Supplies	RT/I - RT/Infusion
AL - Assisted Living	DME - Durable Medical Equipment	IBH - Inpatient Behavioral Health	OBH - Other Behavioral Health	SN - Skilled Nursing
ASC - Ambulatory Surgery Centers	DP - Diagnostic Products	IT - Healthcare IT	OBS - Outsourced Business Services	
CL - Clinical Labs	DPM - Dental Practice Mgmt	MC - Managed Care	PT - Physical Therapy	
CRS - Clinical Research Services	DS - Dental Supplies	MM - Medical Management	R - Renal	

Source: Capital IQ  
Data as of 9/27/10

<sup>1</sup>Source: Source: CB Insights, Q2 2010 Venture Capital Activity Report.

# HEALTHCARE INDUSTRY DEVELOPMENTS

## Public Company Multiples



IT - Healthcare IT	DS - Dental Supplies	MSS - Medical & Surgical Supplies	HH - Home Health	ASC - Ambulatory Surgery Centers
OBS - Outsourced Business Services	R - Renal	PT - Physical Therapy	DPM - Dental Practice Mgmt	
DP - Diagnostic Products	RT/I - RT/Infusion	MM - Medical Management	SN - Skilled Nursing	
DME - Durable Medical Equipment	CL - Clinical Labs	IBH - Inpatient Behavioral Health	MC - Managed Care	
AL - Assisted Living	CRS - Clinical Research Services	OBH - Other Behavioral Health	DI - Diagnostic Imaging	

*Source: CapitalIQ*

## Recent Healthcare Transactions

Date	Target	Buyer	Enterprise Value (TEV)	TEV/Revenue	TEV/EBITDA	Sector
9/27/2010	NightHawk Radiology Holdings, Inc.	Virtual Radiologic Corporation	\$182	1.2x	7.4x	Healthcare Services
9/14/2010	The Broadlane Group, Inc.	MedAssets, Inc.	\$850	5.1x	NA	Healthcare Services
9/13/2010	eRAD Image Medical, Inc.	RadNet, Inc.	\$11	NA	NA	Healthcare Technology
9/1/2010	Continuing Care Rx, Inc.	Omnicare Inc.	NA	NA	NA	Healthcare Services
8/31/2010	American Healthcare Holdings Inc.	CompuGroup Holding USA, Inc.	\$65	2.3x	10.4x	Healthcare Technology
8/27/2010	Encore Optics, LLC	Nikon Optical USA Inc.	NA	NA	NA	Healthcare Services
8/26/2010	Bravo Health Inc.	HealthSpring Inc.	\$545	NA	NA	Managed Care
8/25/2010	Gaymar Industries, Inc.	Stryker Corp.	\$150	2.0x	NA	Healthcare Equipment
8/23/2010	Vista Healthcare, LLC	Kindred Healthcare Inc.	\$180	NA	NA	Healthcare Facilities
8/17/2010	Consolidated Health Services, Inc.	Catholic Health Initiatives	NA	NA	NA	Healthcare Services
8/16/2010	Osteotech, Inc.	Medtronic Sofamor Danek Inc.	\$135	1.3x	24.2x	Healthcare Equipment
8/14/2010	Res-Care Inc.	Onex Corporation	\$502	0.4x	5.9x	Healthcare Services
8/4/2010	Amplimmune, Inc., Worldwide Rights to AMP-224 Fusion Protein	GlaxoSmithKline plc	\$508	NA	NA	Pharmaceuticals
7/29/2010	Genzyme Corp.	Sanofi-Aventis	\$18,698	4.2x	26.3x	Biotechnology
7/28/2010	Medfinders, Inc.	AMN Healthcare Services Inc.	\$239	0.8x	NA	Healthcare Services
7/27/2010	Health Grades Inc.	Vestar Capital Partners	\$282	4.4x	19.6x	Healthcare Services
7/11/2010	Micrus Endovascular Corp.	Codman & Shurtleff, Inc.	\$433	4.2x	26.3x	Healthcare Equipment
6/30/2010	Abraxis BioScience, Inc.	Celgene Corporation	\$3,660	7.8x	NA	Biotechnology
6/18/2010	Regency Hospital Company, LLC	Intensiva Healthcare Corp.	\$210	0.6x	7.6x	Healthcare Facilities
6/9/2010	Eclipsys Corporation	Allscripts Healthcare Solutions, Inc.	\$1,288	2.3x	21.6x	Healthcare Technology
5/31/2010	Becton, Dickinson and Company, Assets of BD Medical Segment including Ophthalmic Systems Unit	RoundTable Healthcare Management, LLC; Argon Medical Devices, Inc.; Aspen Surgical Products, Inc.	\$270	NA	NA	Healthcare Equipment
5/23/2010	Odyssey Healthcare Inc.	Gentiva Health Services Inc.	\$1,043	1.3x	10.5x	Healthcare Services
5/19/2010	LightLab Imaging, Inc.	St. Jude Medical Inc.	\$90	NA	NA	Healthcare Equipment
5/16/2010	Psychiatric Solutions, Inc.	Universal Health Services Inc.	\$3,165	1.7x	9.8x	Healthcare Services
5/16/2010	Virtual Radiologic Corporation	Providence Equity Partners LLC	\$293	2.0x	12.1x	Healthcare Services
5/4/2010	SenoRx, Inc.	CR Bard Inc.	\$210	3.4x	46.3x	Healthcare Equipment
4/27/2010	American HomePatient, Inc.	Highland Capital Management, L.P.	\$241	1.0x	21.3x	Healthcare Services
4/20/2010	63 Long Term Care Facilities	Omega Healthcare Investors Inc.	\$293	NA	NA	Healthcare Facilities
4/13/2010	Dialysis Corporation of America	U.S. Renal Care, Inc.	\$122	1.2x	12.4x	Healthcare Facilities
3/3/2010	Allergan, Inc., Worldwide Rights to Develop, Manufacture and Commercialize AGN-209323	Bristol-Myers Squibb Company	\$413	NA	NA	Pharmaceuticals

# HEALTHCARE SECTOR SPOTLIGHT

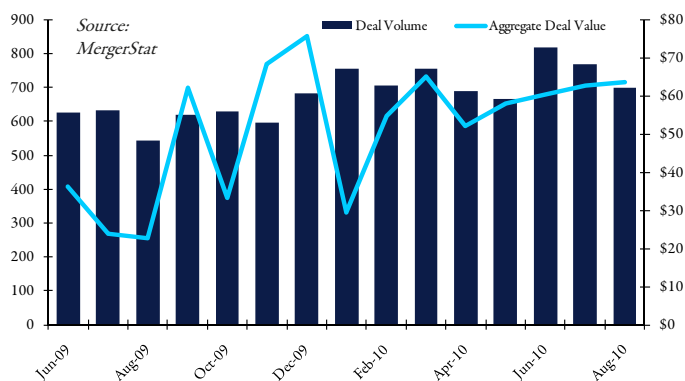
## Public Company Trading Statistics

Sub Sector	9/30/2010	Enterprise Value to:			
		Revenue		EBITDA	
		LTM	2010E	LTM	2010E
Ambulatory Surgery Center		1.3x	1.3x	4.2x	4.8x
Clinical Labs		1.6x	1.6x	8.1x	7.6x
Clinical Research Services		1.4x	1.4x	8.8x	9.3x
Dental Practice Management		1.1x	1.0x	5.9x	5.8x
Dental Supplies		1.7x	1.6x	9.5x	9.1x
Diagnostic Imaging		1.7x	1.7x	5.1x	5.0x
Diagnostic Products		2.6x	2.6x	10.1x	8.9x
Durable Medical Equipment		2.1x	2.1x	7.7x	7.6x
Healthcare IT		4.7x	3.5x	21.6x	17.7x
Home Health		0.7x	0.6x	4.7x	4.0x
Independent and Assisted Living		1.7x	2.0x	9.3x	8.5x
Inpatient Behavioral Health		1.3x	1.2x	8.0x	7.8x
Managed Care		0.4x	0.3x	5.4x	5.9x
Medical and Surgical Supplies		1.5x	1.5x	8.2x	8.1x
Medical Management		0.9x	0.9x	5.4x	4.9x
Other Behavior Health		0.4x	0.4x	4.8x	5.4x
Outsourced Business Services		4.4x	3.9x	13.9x	11.7x
Physical Therapy		0.9x	0.8x	7.0x	5.9x
Renal		1.8x	1.6x	9.1x	8.1x
RT/Infusion		1.7x	1.7x	8.8x	6.2x
Skilled Nursing		0.3x	0.4x	4.2x	4.8x

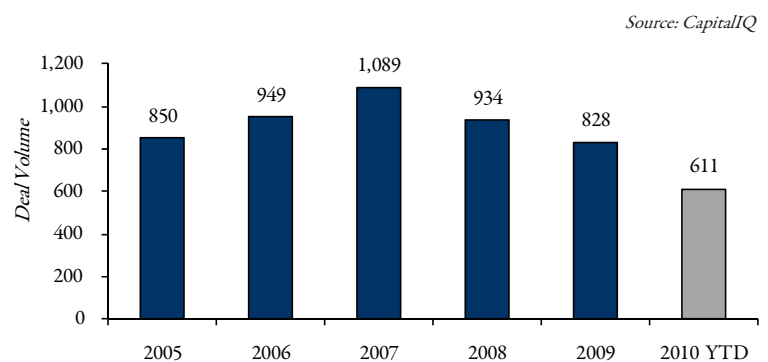
Source: CapitalIQ

## Capital Markets

### U.S. M&A Activity (All Sectors)



### U.S. Healthcare M&A Volume





# DRESNER PARTNERS

## HEALTHCARE GROUP

### Dresner Partners Healthcare Service Offering



## DEAL SPOTLIGHT

Dresner Healthcare - A Leader in Investment Banking Services to the Dialysis and HCIT sectors.

(Nasdaq:DCAI)

has been acquired by

The undersigned served as exclusive financial advisor to Dialysis Corporation of America and rendered a fairness opinion for the transaction

June 2010

has agreed to be acquired by

Nasdaq:RDNT

The undersigned acted as exclusive financial advisor and structured and negotiated the transaction on behalf of eRAD.

September 2010

### Current Transactions

Project Compound - Sale of a retail pharmacy chain to a strategic buyer

Project Vision - Sale of a diagnostic instrumentation manufacturer to a strategic buyer

Project Quality - Sale of a healthcare IT company focused on credentialing and care management

Project Tiger - Buy-side and financing advisory for a critical access hospital owner/operator

Project RCM - Sale of revenue cycle management company

### 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 sales, acquisitions, and private placements. 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 assets. We assist companies in executing their financial and strategic alternatives.

Our role as a 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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