HEALTHCARE INDUSTRY UPDATE

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HEALTHCARE FOCUS

DRESNER PARTNERS
INVESTMENT BANKING

In this Issue...

Healthcare Activity and Outlook

As a continuation of the trend that began to accelerate in late 2007, largely as a result of the dislocation in the credit markets and depressed real estate values, capital flows continue to shift from facilities to other healthcare subsectors such as healthcare information technology (HCIT), devices, biotech and specialty pharma. In 1Q2009, approximately 18 percent of all healthcare-related M&A transactions were in facility-based services, as opposed to more that 30 percent in 1Q2007. Not unexpectedly, strategic investors recently have been more active than financial investors since strategics have been conserving cash for the last several quarters and the credit markets have only just begun to show a credible recovery.

Despite this challenging environment, Dresner continues to build its healthcare sector strategy. As an example, we recently completed the sale of Medical Resources, Inc., a provider of diagnostic imaging services in 10 states. A list of Dresner's active healthcare engagements is shown on page 4.

In this issue, we feature an article on new investment opportunities in Wellness/Disease Management (W/DM) by David Hom and Gregory Judd. David served at Pitney Bowes (PB) for 25 years, most recently as VP of Human Resources and Strategic Initiatives, specifically leading PB's strategic healthcare work. David is recognized as the architect of PB's Value-Based Benefit Design, a comprehensive program to contain costs through the application of principles that remove barriers to access and focus on wellness and prevention. This program, among other similar programs at large corporations, was recognized earlier this month by President Obama in a meeting with senior executives of PB and other corporations to seek input for the President's healthcare reform plan.

Featured Article—New Investment Opportunities

Employer Innovation in Healthcare: Opportunities for Investors?

Written By: David Hom and Gregory Judd of David Hom LLC

Imagine for a minute that you are a CEO or CFO of a competitive service business (if you are, congratulations! I believe you'll especially enjoy this article). Your average employee makes $25,000 per year, and you're paying $12,000 to $15,000 a year for health benefits for each of your employees with a family. In a short time, your cost of healthcare will be equal to the cost of wages. You can't move your business overseas – you provide services that are delivered "live and in person" – and so do your competitors. What do you do – what *can* you do – to turn your healthcare spending "drain" into an investment that gives you an advantage over your competitors?

(Cont. on page 2)

Dresner Expands Healthcare Team by Adding Head of Healthcare Investment Banking

Dresner Partners announced in February the appointment of Rod Rivera as Senior Managing Director of our Healthcare Group. In his new role, Mr. Rivera will help lead Dresner Partners' Healthcare Practice, as well as establish a presence on the East Coast with the opening of a new office in Weston, Connecticut. Mr. Rivera's addition expands Dresner's healthcare team to three dedicated senior professionals, along with Gregg Pollack and Ejaz Elahi.

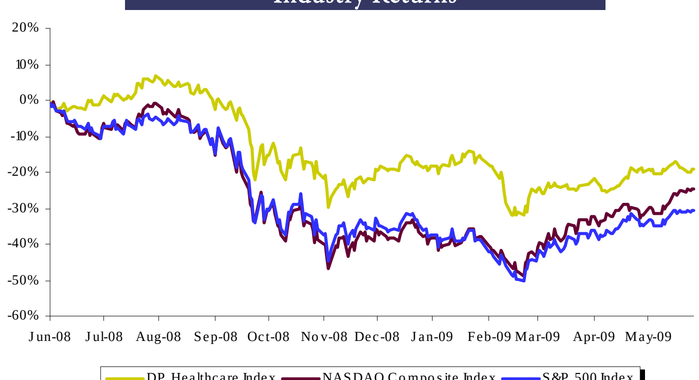
Prior to joining Dresner Partners, Mr. Rivera served as Managing Director and Co-Head of the Healthcare Services Team for Jefferies & Company, Inc. (NYSE: JEF) in New York City. During his tenure at Jefferies, Mr. Rivera was involved in several transactions in the areas of assisted living, skilled nursing, long term acute care hospitals (LTACH), oncology, home health, specialty hospitals and lithotripsy. Previously, Mr. Rivera also held senior positions as a Managing Director with Credit Suisse First Boston and CIBC World Markets, both in New York City. He also worked for Citicorp Securities. Prior to Wall Street, Mr. Rivera served as a Naval Flight Officer and Aircraft Mission Commander for the United States Navy. Mr. Rivera currently serves on the advisory board of TIGroup (OTCBB:TISG).

The collective experience of Dresner's expanded healthcare team spans a wide spectrum of the healthcare services sector, covering services, HCIT, medical technology, specialty pharma, and managed care. In addition, our team has expanded its focus to include the W/DM space, an area that has experienced rapid growth and continues to gain favor among both strategic and financial investors. Dresner currently is working on multiple mandates in the W/DM space. (Please see "Employer Innovation in Healthcare: Opportunities for Investors?" in this issue.)

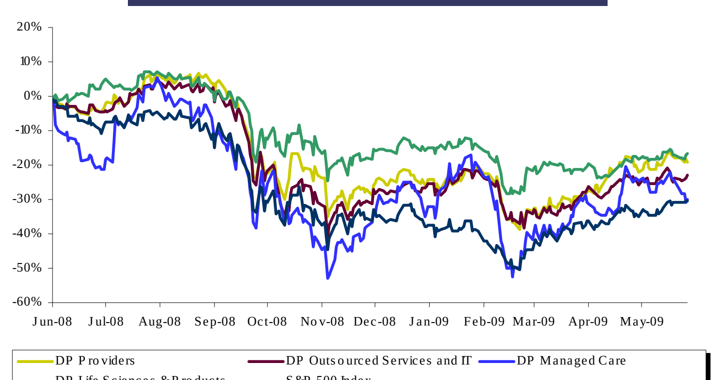
A press release announcing Mr. Rivera's appointment is available at http://www.dresnerpartners.com/n-news/article.asp?id=82.

Healthcare Public Market Trends

Industry Returns



Sector Returns



Source: CapitalIQ

Healthcare Industry Developments

Recent Transactions & Regulatory Changes

Select Recent Transactions *

On May 18, 2009, **Landauer Metropolitan** acquired **Genox Homecare, Mid-Atlantic Healthcare** and **Young's Medical Equipment**, distributors of home healthcare and related medical equipment, from Air Products Healthcare for an undisclosed amount.

On April 2, 2009, **Canon U.S.A., Inc.** announced its acquisition of **Virtual Imaging, Inc.**, a provider of diagnostic imaging equipment, for an undisclosed amount.

On March 18, 2009, **Intermedix Technologies, Inc.** acquired **HealthWare Solutions**, a provider of EMS software and services, for an undisclosed amount.

On March 12, 2009, **Gilead Sciences, Inc.** entered into an agreement to acquire **CV Therapeutics, Inc.**, a biopharmaceutical company focused on the treatment of cardiovascular diseases, from Azimuth Opportunity Ltd. for **$1.7 billion** (**9.0x Revenue**).

On March 9, 2009, **Acadia Healthcare Company, L.L.C.** acquired **AAC Retention Company, L.L.C.**, an operator of substance abuse facilities, for an undisclosed amount.

On March 5, 2009, **Ferrer Freeman & Co., L.L.C. and Vitalize Consulting Solutions, Inc.** announced their acquisition of **r3 Health Partners, L.L.C.**, a healthcare IT consulting firm, for an undisclosed amount.

On March 4, 2009, **Marlin Equity Partners, L.L.C.** entered into an agreement to acquire **MDeverywhere, Inc.**, a physician revenue cycle management company, from SV Life Sciences for an undisclosed amount.

On March 3, 2009, **Res-Care Inc.** announced its acquisition of **Friendship Developmental Services, Inc.**, a provider of residential, medical and vocational services for people with developmental disabilities, for an undisclosed amount.

On February 26, 2009, **DST Systems Inc.** entered into an agreement to acquire **Argus Health Systems, Inc.**, a provider of healthcare information management services, from Financial Holding Corporation for **$57 million** (**0.9x Revenue**).

On February 23, 2009, **AMICAS inc.** announced its acquisition of **Emageon Inc.**, a provider of information technology solutions for the analysis and management of medical images, from a group of institutional investors for **$39 million** (**0.4x Revenue**).

On February 9, 2009, **Lundbeck, Inc.** announced its acquisition of **OVATION Pharmaceuticals, Inc.**, a biopharmaceutical company focused on medical therapies for patients with severe illnesses, from GTCR Golder Rauner, L.L.C. for **$900 million**.

On February 3, 2009, **JLL Partners** acquired **PharmaNet Development Group, Inc.**, a drug development services company, for **$252 million** (**0.4x Revenue; 7.1x EBITDA**).

On January 27, 2009, **PRO Medicus Ltd.** announced its acquisition of **Visage Imaging**, a provider of visualization and imaging products, from Mercury Computer Systems for **$3 million** (**0.3x Revenue**).

On January 12, 2009, **Medtronic, Inc.** announced its acquisition of **Ablation Frontiers, Inc.**, a medical device company focused on cardiac ablation devices, from a group of institutional investors for **$225 million**.

On January 12, 2009, **AngioDynamics Inc.** announced its acquisition of **FlowMedica, Inc.**, a medical device company focused on intravascular systems for renal therapies, from a group of institutional investors for **$2 million**.

On January 8, 2009, **Press Ganey Associates, Inc.** acquired **PatientFlow Technology, Inc.**, a provider of patient flow management tools/services, for an undisclosed amount.

On January 7, 2009, **Radiation Oncology Services of America** entered into an agreement to acquire **ROSA of Georgia, L.L.C.**, an owner/operator of oncology centers in Georgia and Florida, from American Oncology Associates for an undisclosed amount.

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

**Source: CapitalIQ, MergerStat & Dresner Partners estimates*

Featured Article—New Investment Opportunities (Cont. from page 1)

Imagine now that you're a healthcare investor. Is there opportunity in firms that can help our executive accomplish that goal? If so, what do they look like?

A 2008 New England Healthcare Institute publication titled, "Waste and Inefficiency in the U.S. Health Care System," noted that up to 30 percent of the total spending on healthcare could be eliminated without impacting quality. Overuse of things like antibiotics, diagnostic imaging, and back surgery play a role; more interestingly, the report found that *underuse* of statins, antihypertensive medications, beta blockers, colon, breast, and cervical cancer screenings, and effective asthma medications contributed significantly to the unnecessary spending. This evidence shows that there are significant opportunities to improve the health of our population by addressing underutilization of services that keep people healthy and avoid costly rescue care.

I have traveled more than 300,000 miles and visited over 153 cities in four countries speaking about healthcare innovation to employers, brokers, consultants, health plans, health systems, unions and physicians. I have observed how healthcare is conventionally delivered, and seen evidence of the pivotal role that employers' health benefit strategy and design can play in shaping – and changing – healthcare delivery at a local level. Most importantly, I've seen evidence in place after place that when even a few employers - supported by aligned doctors, hospitals, and other participants in healthcare financing and delivery – introduce strategic changes that encourage investment in health, broad improvement in healthcare return for each dollar spent is possible. And with that improvement comes a more gradual, more manageable rate of increase in healthcare spending.

The kind of results I've described do not happen on their own. In most cases, it has taken employers months and years of thought and effort to produce better returns on investment in their populations' healthcare activity – months and years of effort and expenditure that relatively few employers can readily commit. Many employers *want* to invest more effectively in their workforce's health – but they do not want to have to invent the process for themselves. They want a "solution in a box" that someone else - a health plan, a physician group, a hospital system, their consultant or broker - should design and deliver. The "box" is not on the shelf yet – but the components of the box already exist, and "box-makers" are emerging.

As chief health benefits strategist for Pitney Bowes for most of the past two decades, I had the opportunity to devise a model of the "box" and some of its key components. In partnership with our then-chairman and CEO, and with the guidance of the Sr. VP of Human Resources and my good friend and medical director Dr. Jack Mahoney, we created a strategy and implemented programs that reduced the rate of healthcare inflation by almost 50 percent when compared to a set of benchmark companies. The core of our strategy was to engage our employees and their family members in becoming the "CEOs of their own health" – supporting their active engagement in getting and staying as healthy as their circumstances would permit. We focused on creating a culture of health, and reinforced it through benefit design innovations that encouraged employees and their family members to invest their time, effort, energy – their activity – in their health. Our design innovations included:

- lowering the cost of preventative screenings;
- lowering the cost of medications and supplies for treatment of asthma, diabetes, hypertension, smoking, and osteoporosis;
- reducing copays for access to physicians whose practice records indicated they produced superior health for their patients;
- expanding coverage for the services of employee assistance counselors in light of data that indicated our conventional coverage actually resulted in employee use of higher cost, lower value "rescue care".

We fortified these initiatives with focused wellness and disease management programs and access to personalized medical information. We even discounted our company cafete-

(Cont. on page 4)

Healthcare Sector Spotlight

Healthcare IT

Industry Overview

The Healthcare IT industry opportunity is estimated to be more than $20 billion annually in software and related products and services (which is approximately 1-2 percent of national health expenditures). The following outlines industry dynamics :

Healthcare IT industry growth expectations

- Capital constraints will continue to impact provider IT spending in the near term
- Industry is expected to grow in the 3-8 percent range in 2009 and 2010
- Industry growth rate could accelerate to 7-10 percent range after 2011 if capital constraints ease

Significant room for increased IT expenditures by healthcare organizations relative to other industries

- On average, healthcare organizations devote less than 5 percent of operating budgets to IT projects, whereas organizations in other industries devote closer to 20 percent

Although general spending on healthcare IT is slowing (driven primarily by hospitals postponing and/or ending IT projects), there are drivers combating this slowdown:

Legislation helping to boost healthcare IT adoption

- Healthcare IT stimulus of an estimated $20 billion to encourage adoption
- Pay-for-performance (P4P) programs making manual records labor intensive, inefficient and cost prohibitive
- Stark relaxation allows hospitals to assist physicians through e-prescribing exception

Industry standards helping to boost healthcare IT adoption

- Higher adoption rates of e-prescribing due to simplicity of implementation and low cost
- MS-DRG coding tweaks encouraging proper documentation

Source: Wall Street and Dresner equity research

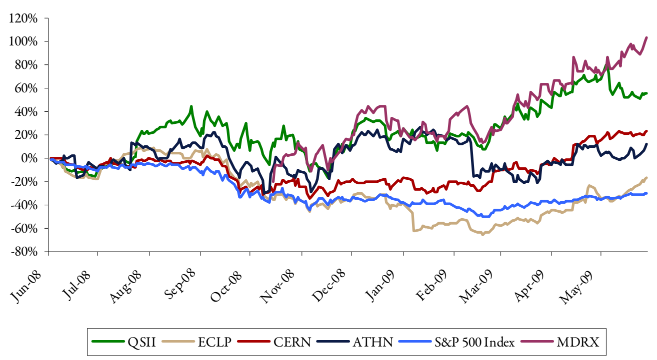
Healthcare IT Statistics

Public Company Trading Statistics

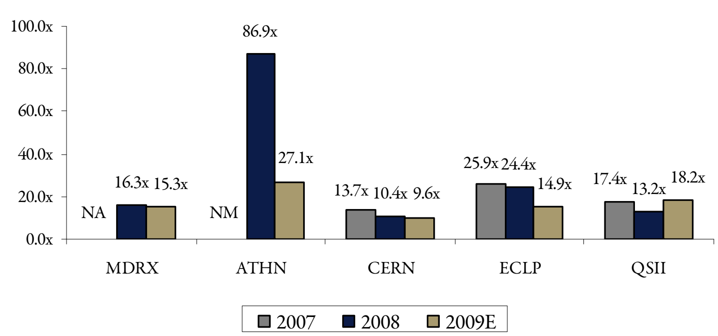
($ in millions, except per share data)

				LTM			Enterprise Value to: Revenue		EBITDA		EBIT	
Company Name	6/15/2009 Stock Price	Market Cap	TEV	Revenue	EBITDA	EBIT	LTM	2009E	LTM	2009E	LTM	2009E
Allscripts-Misys Healthcare Solutions, Inc. (NasdaqGS:MDRX)	$13.85	2,009.7	2,002.4	479.2	92.0	76.0	4.2x	3.0x	21.8x	15.3x	26.3x	NA
Athenahealth, Inc. (NasdaqGS:ATHN)	$33.00	1,131.4	1,051.9	151.9	19.4	14.5	6.9x	5.5x	54.3x	27.1x	72.7x	34.3x
Cerner Corp. (NasdaqGS:CERN)	$57.88	4,757.0	4,555.9	1,683.6	405.8	284.4	2.7x	2.6x	11.2x	9.6x	16.0x	15.2x
Eclipsys Corp. (NasdaqGS:ECLP)	$17.20	1,002.7	996.8	521.5	42.5	16.8	1.9x	1.9x	23.5x	14.9x	59.2x	21.7x
Quality Systems Inc. (NasdaqGS:QSII)	$50.66	1,461.7	1,391.6	245.5	76.3	72.4	5.7x	5.7x	18.2x	18.2x	19.2x	19.2x
						High	6.9x	5.7x	54.3x	27.1x	72.7x	34.3x
						Low	1.9x	1.9x	11.2x	9.6x	16.0x	15.2x
						Mean	4.3x	3.7x	25.8x	17.0x	38.7x	22.6x
						Median	4.2x	3.0x	21.8x	15.3x	26.3x	20.5x

Healthcare IT Equity Market Performance

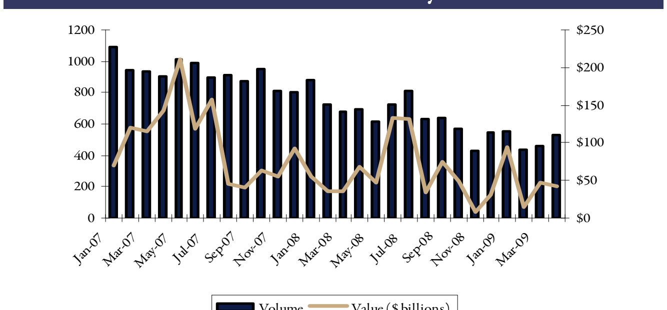


Healthcare IT EV / EBITDA Multiples



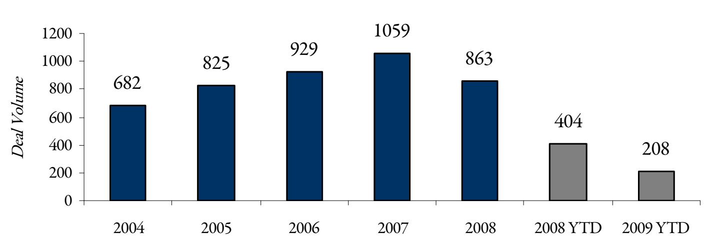
Capital Markets

U.S. M&A Activity



Source: MergerStat

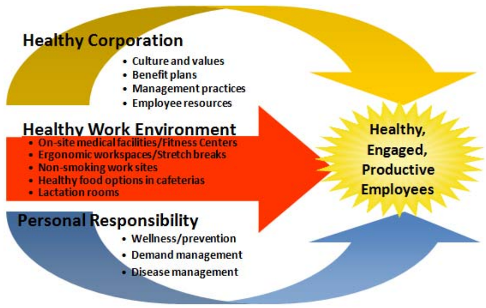
U.S. Healthcare M&A Volume



Source: CapitalIQ

(Cont. from page 2)

ria's prices for healthy foods. We imagined, made a business case for, and implemented a variety of initiatives that made our company an investor, along with each of our employees, in their health.



In 2006, Dr. Mahoney and I wrote a practical book on creating a culture of health which we called **Total Value Total Return: Seven Rules for Optimizing Employee Health Benefits for a Healthier and More Productive Workforce.** The book's key theme is that an ounce of prevention is worth a pound of healthcare. It provides practical insights and examples showing how a well-developed culture of health can make good business sense. More than 50,000 human resources and benefits professionals have a copy.

Many of the solutions that have worked for leading employers can be replicated by companies of all sizes and purposes. Where employers have embraced the concept of treating health as an investment to be employed as a competitive advantage, rather than as an expense to be avoided, the challenge is to find the healthcare services and products that, when combined, enable an employer to implement and measure the performance of their health investment. I have been working with Dresner Investment Partners to identify companies that deliver these services and products. We believe that there are opportunities both in providers of individual, freestanding services and products, and in *combinations* of businesses that make it easy for employers to make the transition from cost-focused, grudging spending on healthcare, to investing effectively in maintaining and improving the health of their workforce to obtain a competitive advantage.

Dresner Partners Healthcare Service Offering

Dresner Partners has served healthcare clients (both for-profit and not-for-profit) for more than 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 liability costs for providers make it an attractive industry for significant investment.

DEAL SPOTLIGHT

Dresner Healthcare - A Leader in Investment Banking Services to the Diagnostic Imaging Sector

MEDICAL RESOURCES, INC.
Healthcare Imaging Specialists

A provider of diagnostic imaging services in 10 states

Has been acquired by

Multiple Buyers in Separate Transactions

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Current Transactions

Project Care	-	Sale of a skilled nursing business owned by a large not-for-profit hospital system
Project Renal	-	Sale of a leading regional provider of dialysis care
Project Joule	-	Capital raise for a company with proprietary technology for the treatment of breast tumors
Project Home	-	Sale of a Medicare focused home health provider
Project Tiger	-	Buy-side advisory for a critical access hospital owner/operator
Project Sample	-	Sale of a rural focused diagnostic laboratory company
Project Workflow	-	Sale of a healthcare IT company focused on image management and workflow solutions
Project Quality	-	Sale of a healthcare IT company focused on credentialing and care management

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 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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