



Healthcare & Life Sciences

Spotlight On: Healthcare Reform Driving Consolidation

2012 in Review

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2012 proved to be an active year for healthcare M&A, marking the second highest volume year in the last decade. M&A spend was down as political and economic uncertainty left the middle market to bolster deal volume.

Looking Ahead

Page 4

2013 promises to be a robust M&A market with secular trends catalyzing continued consolidation.

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Insider

A close-up, blue-tinted photograph of a stethoscope resting on a computer keyboard. The stethoscope's chest piece is centered over the 'K' key, and its earpiece is in the bottom right corner. The keyboard keys are visible in the foreground and background, creating a sense of depth.

The BGL Healthcare Insider is published by Brown Gibbons Lang & Company, a leading independent investment bank serving middle market companies throughout the U.S. and internationally.

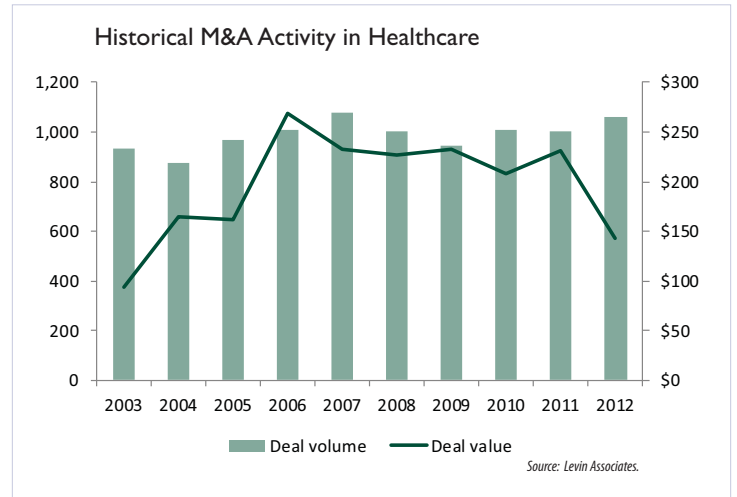


Healthcare Reform Driving Consolidation

2012 in Review

2012 proved to be an active year for healthcare M&A, with a total of 1,063 announced transactions, marking the highest volume year, based on number of deals, since 2007 (1,079 transactions). Despite record deal flow, deal value declined to \$143 billion⁽¹⁾ in 2012—down 38 percent from \$231 billion in 2011—the second lowest year for M&A spend in the most recent decade. Political uncertainty brought on by the U.S. presidential election, the formidable fiscal cliff, and global economic uncertainty had the effect to reduce risk appetite, bringing in fewer billion-dollar transactions and leaving the middle market to bolster deal volume.

Healthcare Services led M&A activity for the year, accounting for 58 percent of deals announced (614 transactions). Long-Term Care (188 transactions) was the most active sub-sector of the Services category, accounting for 31 percent of deals announced. Life Sciences and Technology led in dollar volume, contributing \$87 billion, or 61 percent, of the total

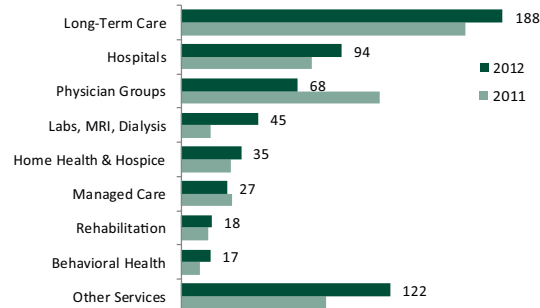


deal value in 2012. Medical Devices was the most active sub-sector in the category with 143 announced transactions. Pharmaceuticals brought in the largest M&A spend with \$38 billion in total transaction value and also posted strong deal volume with 101 transactions announced in 2012.

Healthcare Deal Stratification

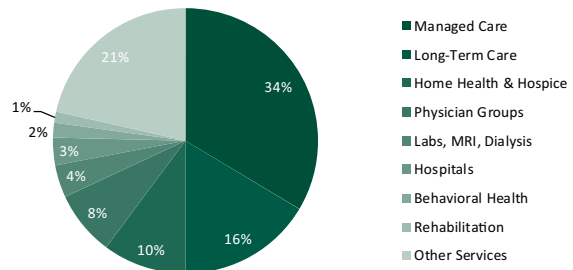
The Deals

Healthcare Services 614 transactions

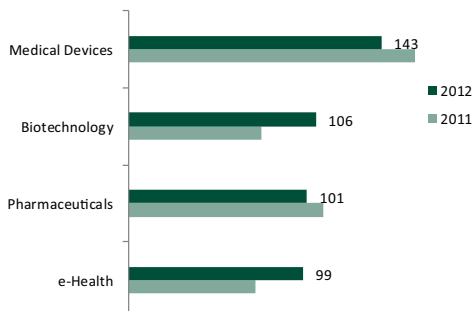


The Dollars

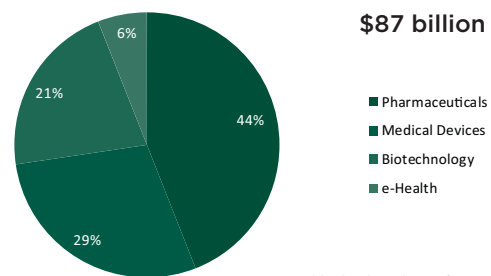
\$56 billion



Life Sciences & Technology 449 transactions



\$87 billion



2012 reported data based on preliminary figures. Source: Levin Associates.



Summary of Selected Healthcare M&A Transactions in 2012

Sector	Announced	Acquirer	Target	Enterprise Value (\$ millions)	Enterprise Value Revenue	Enterprise Value Multiples EBITDA
LONG-TERM CARE	10/16/12	HCP, Inc. (NYSE:HCP)	Portfolio of 133 Senior Living Communities	\$1,730.0	-	-
HOSPITALS	6/12/12	Highmark, Inc.	Jefferson Regional Medical Center	\$275.0	1.3x	12.2x
	4/2/12	Sacred Heart Health System	Bay Medical Center	\$154.0	0.6x	16.2x
PHYSICIAN GROUPS	5/21/12	DaVita, Inc. (NYSE:DVA)	HealthCare Partners, LLC	\$4,693.0	2.0x	8.9x
LABS/MRI/DIALYSIS	6/4/12	Laboratory Corp. of America Holdings (NYSE:LH)	MEDTOX Scientific, Inc.	\$241.2	2.0x	13.1x
HOME HEALTH & HOSPICE	7/1/12	The Linde Group (DB:LIN)	Lincare Holdings Inc.	\$4,328.6	2.2x	9.2x
MANAGED CARE	8/20/12	Aetna Inc. (NYSE:AET)	Coventry Health Care, Inc. (NYSE:CVH)	\$6,631.8	0.5x	7.4x
	7/9/12	WellPoint, Inc. (NYSE:WLP)	Amerigroup Corporation (NYSE:AGP)	\$4,317.4	0.5x	15.6x
	10/8/12	UnitedHealth Group Incorporated (NYSE:UNH)	Amil Participações S.A. (BOVESPA:AMIL3)	\$4,300.0	0.9x	26.8x
	11/5/12	Humana, Inc. (NYSE:HUM)	Metropolitan Health Networks, Inc.	\$740.0	1.0x	7.7x
	5/13/12	Towers Watson & Co. (NYSE:TW)	Extend Health, Inc.	\$435.0	6.8x	28.7x
REHABILITATION	3/28/12	Court Square Capital Partners	Physiotherapy Associates, Inc.	\$510.0	1.4x	-
BEHAVIORAL HEALTH	6/4/12	Universal Health Services, Inc. (NYSE:UHS)	AscendHealth Corporation	\$517.0	-	-
OTHER SERVICES	4/18/12	SXC Health Solutions	Catalyst Health Solutions, Inc.	\$4,844.2	0.9x	22.2x
	9/24/12	Advent International Corp.	Mediq NV (ENXTAM:MEDIQ)	\$1,409.9	0.4x	7.5x
MEDICAL DEVICES	12/4/12	Baxter International, Inc. (NYSE:BAX)	Gambro AB	\$4,013.8	2.4x	-
	4/30/12	Hologic, Inc. (NasdaqGS:HOLX)	Gen-Probe, Inc.	\$3,890.9	6.6x	21.2x
	5/17/12	Agilent Technologies Inc. (NYSE:A)	Dako A/S	\$2,996.0	9.1x	29.8x
	6/11/12	EQT Partners AB	BSN Medical GmbH	\$2,250.9	2.7x	10.9x
	3/8/12	Boston Scientific Corporation (NYSE:BX)	Cameron Health, Inc.	\$1,400.0	-	-
DISTRIBUTION	10/25/12	McKesson Corporation (NYSE:MCK)	PSS World Medical Inc. (NasdaqGS:PSSI)	\$1,819.0	0.8x	10.7x
BIOTECHNOLOGY	2/29/12	Dainippon Sumitomo Pharmaceutical Co. (TSE:4506)	Boston Biomedical, Inc.	\$2,630.0	-	-
	1/26/12	Amgen, Inc. (NasdaqGS:AMGN)	Micromet, Inc.	\$857.2	39.1x	-
	11/28/12	Smith & Nephew plc (LSE:SN)	Healthpoint Biotherapeutics	\$782.0	5.2x	-
	12/10/12	Amgen, Inc. (NasdaqGS:AMGN)	deCODE Genetics	\$415.0	-	-
	12/12/12	Gilead Sciences, Inc.	YM Biosciences Inc. (TSX:YM)	\$355.5	-	-
PHARMACEUTICALS	6/29/12	Bristol-Myers Squibb Company (NYSE:BMJ)	Amylin Pharmaceuticals, Inc.	\$6,657.1	10.0x	-
	4/25/12	Watson Pharmaceuticals, Inc.	Actavis Inc. (NYSE:ACT)	\$5,878.0	2.4x	14.5x
	4/19/12	GlaxoSmithKline plc (LSE:GSK)	Human Genome Sciences	\$3,212.0	17.2x	-
	9/3/12	Valeant Pharmaceuticals International, Inc. (TSX:VRX)	Medicis Pharmaceutical Corporation	\$2,402.1	3.2x	12.9x
	1/7/12	Bristol-Myers Squibb Company (NYSE:BMJ)	Inhibitex, Inc.	\$2,526.3	-	-
	7/16/12	TPG Capital, L.P.	Par Pharmaceutical Companies, Inc. (NYSE:PRX)	\$1,978.1	1.9x	8.3x
	5/2/12	Novartis AG	Fougera Pharmaceuticals, Inc.	\$1,525.0	3.6x	8.8x
E-HEALTH	7/30/12	Roper Industries (NYSE:ROP)	Sunquest Information Systems	\$1,390.0	7.1x	12.8x
	7/2/12	One Equity Partners	M*Modal Inc.	\$1,074.0	2.3x	9.6x
	5/16/12	Piramal Healthcare Ltd.	Decision Resources Group	\$635.0	-	-
	7/17/12	maxIT Healthcare Holdings	SAIC, Inc. (NYSE:SAI)	\$493.0	-	-
	3/23/12	Verisk Analytics, Inc.	MediConnect Global, Inc.	\$348.6	6.0x	14.7x

Source: S&P Capital IQ, Levin Associates.



Healthcare Reform Driving Consolidation

Outlook for 2013

Fundamentals point to what should be a robust M&A market in 2013. With the election behind us, full implementation of the Affordable Care Act (ACA) is advancing, calling for sweeping payment reform of the U.S. healthcare system. Reform anticipates greater risk being shifted to providers, as value-based reimbursement models dictate risk-sharing with incentives geared toward achieving better outcomes at lower cost. Additionally, starting in 2014, the ACA will begin to expand insurance coverage to an estimated 32 million more people. Substantial investment in healthcare information technology is needed to collect and analyze patient data with the move toward population health management. The push for efficient delivery of quality care, complicated further by reduced reimbursement rates, federal and state budgetary issues, and pressures of an uncertain economic climate, will feed transaction activity across all healthcare sub-sectors.

Excess capital will continue to be a driver of acquisitions. Corporate buyers are sitting on large amounts of cash. Secular demand drivers and above-average growth of many healthcare sub-sectors continue to draw in private equity investment. Across the broad market, private equity dry powder stands at just under \$350 billion.¹

The capital markets remain healthy. The public equity markets are showing gains on signs of a strengthening economy and improving business fundamentals. The credit markets remain open, accommodating acquisition financing at attractive terms.

Providers

The push for integrated healthcare delivery and further advancement of the accountable care organization (ACO) model will see provider and payer models converge as participants pursue acquisitions and partnerships to gain scale advantages. The focus of acquisitions will be centered on creating better access and delivery of care to patients along with controlling a larger portion of the delivery system.

Hospitals and health systems are building out integrated delivery networks, acquiring physician practices to control patient volume and increase market share while augmenting

capabilities through the addition of surgery centers and other alternate site providers.

Emerging Urgent Care Sector

In July 2012, Dignity Health, the nation's fifth largest hospital system, bought U.S. HealthWorks, the second largest urgent care chain, with 147 centers and approximately 800 medical providers. The move will extend Dignity's mission into new care settings and further its goal to become a national, integrated delivery network by 2020.² The transaction was an exit from a six-year investment for private equity investors Altaris Capital Partners and Three Arch Partners.

Urgent care centers represent one of the fastest-growing segments of the U.S. healthcare system.³ Driving industry growth is a shortage of primary-care providers, resulting in greater overflow to alternate care settings. Additionally, as the patient pool expands with the ACA implementation, urgent care can offer a lower-cost treatment alternative serving to reduce healthcare spend. According to a 2010 study conducted by Rand Corporation, almost one in five visits to hospital emergency departments could be treated at retail medical clinics or urgent care centers, potentially saving \$4.4 billion annually in health care costs.⁴

The \$13.7 billion urgent care industry remains highly fragmented. There are an estimated 9,428 urgent care centers in the United States with the largest four players accounting for only 1.0 percent of industry revenue in 2012. By 2017, industry revenue is projected to reach \$18.2 billion.³ Urgent care centers offer the advantages of convenience and lower cost, which are becoming increasingly paramount to consumers. For providers, the move into urgent care is a strategic one, with the focus to provide better healthcare access in markets where there are shortages of doctors. In June 2012, private equity firm Ridgmont Equity Partners made a majority equity investment in Hometown Urgent Care, an operator of 25 urgent care clinics in Ohio, Michigan, and Kentucky. The sponsor plans to grow Hometown's footprint with new clinic openings and tuck-in acquisitions in select Midwest geographies.

Consolidation Within Short-Stay Surgery Sector

Consolidation of ambulatory surgery centers will continue with increased hospital participation in M&A and independent ASCs seeking local partners. Independent ASC operators are continuing to experience headwinds from physician referral sources to the ASCs which are entering into employment

Source: S&P Capital IQ, PitchBook, equity research, and public data

¹ 1H 2013 Private Equity Fundraising and Capital Overhang Report, PitchBook.

² Dignity Health July 2012 press release.

³ Urgent Care Centers in the US, February 2012, IBISWorld.

⁴ "Many Emergency Department Visits Could Be Managed at Urgent Care Centers and Retail Clinics," September 2010, RAND Corporation.



agreements with local hospitals. In many cases a destabilized ASC needs to partner with the employing hospital system to sustain operations.

Private equity has been active in industry consolidation. In January 2013, an investor group comprised of DFW Capital Partners, PineBridge Investments, and Iroquois Capital announced the acquisition of Covenant Surgical Partners, establishing an acquisition growth platform with the stated goal to become one of the leading operators of ASCs in the United States. Other notable private equity-backed platforms include United Surgical Partners, acquired by Welsh, Carson, Anderson & Stowe in 2007, which has completed multiple add-on acquisitions including Titan Health in September 2011 and American Endoscopy Services (December) and HealthMark Partners (November) in 2010; NovaMed, backed by H.I.G. Capital since May 2011; and Symbion, acquired by Crestview Partners in 2007.

Consolidation is also being seen in the specialty hospital sector. The continued integration of independent physicians into acute care hospital systems under employment models has created risk for these hospitals from a referral perspective. In addition, continued commercial pricing pressure has been and will continue depressing margins in a sector that is subject to regulatory growth restrictions.

Novel Mergers are Occurring

The transformation of healthcare delivery will forge unique partnerships as the competitive landscape evolves and non-traditional players enter the market. DaVita's acquisition of HealthCarePartners, a move aimed at furthering its primary care physician operating model, illustrate diversification plays likely to spur "novel" M&A activity as the market evolves. The purchase is expected to expand DaVita's business in California, Nevada, and Florida, where HealthCare Partners has dominant market share. The integrated care physician group cares for more than 600,000 members through more than 700 physicians and over 8,300 independent physicians. For DaVita, the move signifies a major diversification away from the core dialysis business towards a more fully integrated care company.

Payers

Health insurers are preparing for the impact of insurance exchanges and increased Medicare and Medicaid enrollments, with M&A an avenue to seek enrollment expansion.⁵ 2012 saw large payers combine, notably the acquisition of Coventry Health Care by Aetna and Amerigroup by WellPoint.

Source: S&P Capital IQ, PitchBook, equity research, and public data

⁵PwC Health Industries.

⁶"Healthcare M&A rethink: Why are payers on the hunt for providers," July 2012, Accenture.

Payers also are pursuing strategic acquisitions that complement their core insurance business in a move toward vertical integration. Data reported by Accenture in a review of historical payer acquisition activity substantiates that in the post-reform landscape, health insurers shifted the majority of acquisitions (61 percent) towards diversifying capabilities into areas such as healthcare providers to access new sources of value, which compares to only 17 percent prior to health reform.⁶ Precedent transactions include Humana's acquisition of Concentra in December 2010, an operator of urgent- and occupational-care clinics; Wellpoint's purchase of CareMore Medical Group in August 2011, a Medicare Advantage plan in California, Nevada and Arizona that operates 28 neighborhood care centers; and UnitedHealth's Optum business' purchase of 2,300 physician group Monarch HealthCare in November 2011. UnitedHealth is expected to continue to make investments in the Optum business, with significant capital available to invest in providers.

Recent payer transactions point to the continuing trend to pursue healthcare delivery. Highmark announced its affiliation with Premier Medical Associates, the largest multi-specialty doctor group in western Pennsylvania, and the acquisition of Jefferson Regional Medical Center, both in 2012. Also in 2012, Humana acquired Metropolitan Health Networks in December, an integrated care delivery system comprised of approximately 35 primary care medical centers and network of affiliated physicians and closed on the acquisition of SeniorBridge Family Companies in July, an in-home chronic-care manager with 1,500 care providers. The acquisition of Brazil's Amil Participações by UnitedHealth positions the company as the dominant provider in the largest and fastest growing private health care market in the Americas.⁷ Accenture predicts that \$10 to \$12 billion in payer acquisitions will likely migrate toward non-conventional targets over the next four years.⁶

Diagnostics

Consolidation in diagnostic laboratories will remain robust, as M&A is used to gain access to new test technology and entry into faster-growing markets to expand product offerings and geographic reach. The \$48 billion industry in the United States is comprised of large national players like Quest Diagnostics and LabCorp (combined 28 percent market share), followed by smaller regional laboratories or facilities that specialize in anatomic pathology diagnostics or esoteric testing.⁸

⁷UnitedHealth Group October 2012 press release.

⁸Diagnostic and Medical Laboratories in the US, December 2012, IBISWorld.



Healthcare Reform Driving Consolidation

Labs are looking to expand test menus and are making major investments in R&D and strategic acquisitions to keep pace.⁹ Large players historically have been acquisitive and are actively looking for targets, particularly in specialized testing labs that provide access to new markets. Examples include Quest's purchase of the anatomic pathology outreach laboratory business of UMass Memorial Medical Center in January 2013 and S.E.D. Medical Laboratories in January 2012, a drugs-of-abuse testing laboratory; and LabCorp's acquisition of MEDTOX in July 2012, a move to expand its specialty toxicology testing group and extend its footprint in esoteric testing. Quest's buys follow a series of large acquisitions which include Celera and Athena Diagnostics in 2011 and AmeriPath in 2007. Similarly, LabCorp has spent roughly \$2.0 billion on acquisitions since 2007, purchasing the lab testing business of Genzyme Genetics in November 2010, a provider of complex reproductive and oncology testing services. Australia-based Sonic Healthcare is expanding its U.S. laboratory business using acquisitions as a primary driver, with a top line growth trajectory in excess of 20 percent per year since 2007. Its largest U.S. acquisition to date was CBLPath completed in 2010.

Point of care testing (POCT) is a catalyst for growth in diagnostic testing, with better use of quality diagnostic tests resulting in more targeted treatments, improved patient outcomes, and reduced healthcare costs. Growth is being driven by a global shift towards POC testing over centralized laboratory testing; development of new and innovative technologies; advancement of personalized medicine; and new market opportunities in emerging regions, with BRIC countries cited as growth areas. Cardiac markers, genomics testing, cancer testing, and infectious disease testing are cited among the emerging technology platforms that are driving high-growth diagnostic testing.⁹

Medical Devices

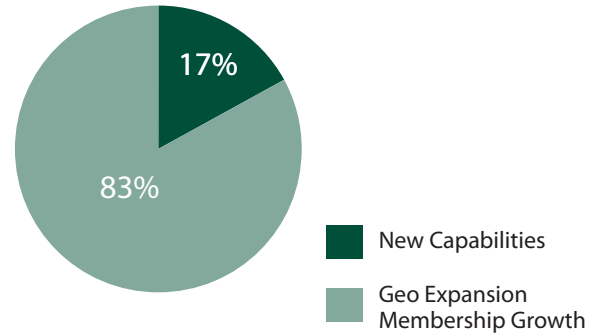
Consolidation will be driven by the need to enhance product portfolios and further leverage global distribution channels. Cost pressure resulting from the ACA mandated excise tax on medical devices is also expected to increase consolidation and force OEMs to drive cost reduction efforts into their supply chain.

Through technology innovation, companies are exploring new ways to address chronic diseases and focusing efforts on key disease state areas with the goal to advance the standard of care and improve clinical, economic, and patient satisfaction outcomes.¹⁰ Chronic diseases cause one in seven deaths annually in the United States and account for more

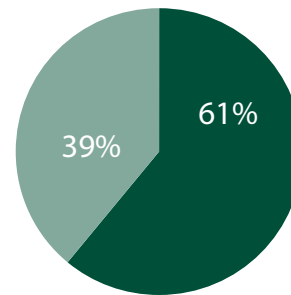
Source: S&P Capital IQ, PitchBook, equity research, and public data
⁹ High-Growth Diagnostic Testing Markets, April 2012, TriMark Publications.
¹⁰ Company filings and website, C.R. Bard.

Payers Expanding M&A Focus

Prior to Health Reform
2004 - 2009 (count = 70)



Post-Health Reform
2010 - 2011 (count = 23)



Source: Thomson Reuters, 2012 Payer Deal Data

1. Relevant transactions from leading payers including United Health Group, Wellpoint, Kaiser Foundation Group, Humana, Aetna, HCSC, Highmark, Cigna, Coventry Corp. Group, Blue Shield of California, Health Net

2. Excluded: pending transactions prior to 2011, withdrawn transactions, repurchase transactions, target nation other than U.S.

Source: "Healthcare M&A rethink: Why are payers on the hunt for providers," July 2012, Accenture.

than 75 percent of healthcare costs.¹¹ Worldwide, chronic diseases are the cause of 63 percent of deaths each year and contribute to 75 percent of global healthcare spending.¹² C.R. Bard concentrates on disease management with specializations in vascular, urology, and oncology. Medtronic formed the Global NCD Initiative to tackle this global issue through global policy and advocacy, strengthening health systems, and innovation in therapy and healthcare delivery. The company has set the goal to treat 25 million patients per year by 2020, 15 million in emerging markets. Today, Medtronic treats 7 million patients.¹³

¹¹ Centers for Disease Control and Prevention.

¹² World Health Organization, Medtronic.

¹³ "Medtronic creates shared value with strategy for disease battle," Fall 2011. The Corporate Citizen.



Arthritis is a significant contributor to chronic conditions. More than half of adults with heart disease (57 percent) or diabetes (52 percent) and more than one-third with obesity (36 percent) also have arthritis.¹⁴ The orthopedic market represents an area of future growth, driven by rising incidence of age- and obesity-induced arthritis, active lifestyle of aging baby boomer population, technological advancements, and growing healthcare systems in emerging economies. Increased advances in biomaterials will encourage smaller companies to compete in niche sectors of the market.¹⁵

Acquisitions and strategic alliances will be important tools to access emerging technologies. In January 2013, Medtronic announced it acquired a 19 percent equity stake in China-based LifeTech Scientific Corporation, forming the partnership to better serve cardiovascular patients in China and other emerging markets.¹⁶ In December 2011, CR Bard acquired Lutonix, a manufacturer of drug-coated balloon catheters for the treatment of coronary and peripheral vascular disease.

Globalization is becoming increasingly more important and relevant, with companies looking to access growing healthcare markets in developing regions, extending their reach into Asia, Europe, and the Middle East. Recent acquisitions by Baxter of Sweden-based dialysis products company Gambro (announced in December 2012); Stryker's acquisition of Chinese orthopedic device manufacturer Trauson (announced in January 2013) which specializes in trauma and spine; and Medtronic's purchase of China-based Kanghui (completed in November 2012), an orthopedic device company, underscore this trend. The Gambro acquisition will expand Baxter's position in the large and growing global dialysis market, extending its footprint in Europe while also increasing Gambro's presence in emerging markets such as Latin America and Asia. Stryker gains a local manufacturing presence in China with Trauson, creating a platform for future growth in emerging markets (now ~6 percent of sales), a key part of the company's long-term strategy. Medtronic's Kanghui buy marks the company's first acquisition in China and the largest acquisition in China by a U.S. company in the medical device industry, according to Medtronic spokeswoman Cindy Resman.¹⁷ The move is in line with Medtronic's strategy to focus on globalization and emerging markets (now ~11 percent of sales).

Healthcare IT

Spending on healthcare IT (HCIT) is on the rise. Hospitals and physician practices are working to comply with government mandated Meaningful Use requirements for electronic health records. Incentives for compliance largely disappear in 2015 at which time the phase-in of Medicare reimbursement penalties begin. The industry is rapidly moving toward integrated HCIT platforms that connect clinical and financial systems, with data analytics becoming an important area of focus to improve population health and quality of care.

The market for HCIT M&A will remain active with healthy interest from strategic and financial buyers seeking growth platforms and niche offerings. Headline deals in 2012 include Roper Industries' acquisition of Sunquest Information Systems, a provider of diagnostic and laboratory software solutions to healthcare providers and One Equity Partners' M*Modal buy, a leading provider of clinical narrative capture services and advanced data analytics. Acquisitive strategic Verisk Analytics picked up MediConnect Global in March, a provider of proprietary systems for the retrieval, storage, review, and analysis of medical records. The company has over 500 clients including several of the largest national and regional health plans (four of five largest U.S. plans). The move will bolster Verisk's payment integrity and analytic practices by providing access to clinical data from ~10 million medical records to help develop advanced analytics and predictive models for areas such as population health management. In January 2013, athenahealth announced it was acquiring Epocrates (EPOC), gaining access to EPOC's 330,000 physician clients (roughly half of the total number of physicians in the United States) and software applications covering a wide range of mobile drug reference tools, including point-of-care dosing data, drug interaction information, pricing, insurance coverage, and formulary information. Approximately 50 percent of physicians and over 1 million healthcare providers in the United States use the EPOC drug reference application.

Private equity is actively targeting the HCIT space, with a roster of investors in 2012 including Thoma Bravo (Mediware Information Systems and add-on MediServe Information Systems), Ferrer Freeman & Company (Arcadia Solutions), Pamlico Capital (HealthcareFirst), and ABRY Partners (Source Medical Solutions) among others.

Source: S&P Capital IQ, PitchBook, equity research, and public data

¹⁴ Centers for Disease Control and Prevention.

¹⁵ Analysis of the Hip Implants Market, Frost and Sullivan.

¹⁶ Medtronic January 2013 press release.

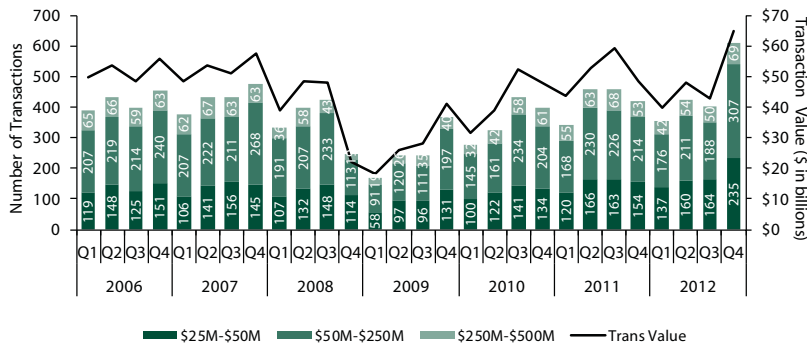
¹⁷ Medtronic September 2012 press release.



Healthcare & Life Sciences Insider Mergers & Acquisitions Overall M&A Activity 2006 - Current

Mergers & Acquisitions Activity

Middle Market M&A Activity

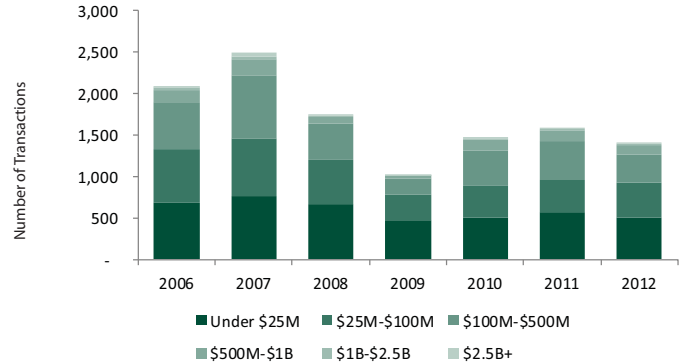


Based on announced deals, where the primary location of the target is in the United States. Middle market enterprise values between \$25 million and \$500 million.

Source: S&P Capital IQ.

Private Equity Transaction Activity

Transaction Count by Deal Size

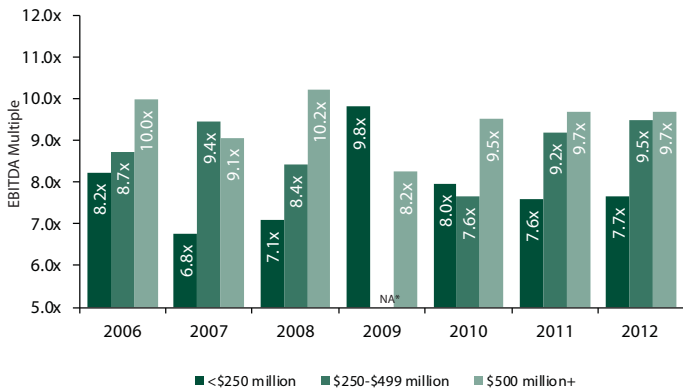


Counts only include deals with disclosed transaction values.

Source: PitchBook.

Trends in Valuation

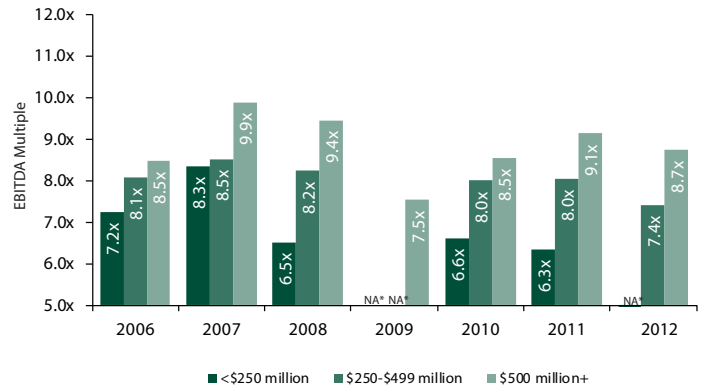
Transactions with Strategic Buyers



*NOTE: Data not reported due to limited number of observations for period.

Source: Standard & Poors LCD.

Transactions with Financial Buyers

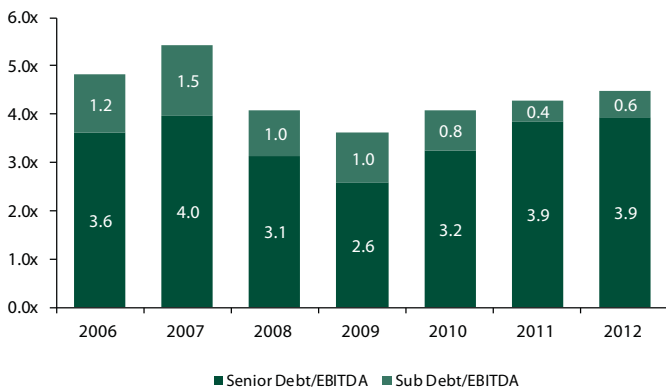


*NOTE: Data not reported due to limited number of observations for period.

Source: Standard & Poors LCD.

Acquisition Financing Trends

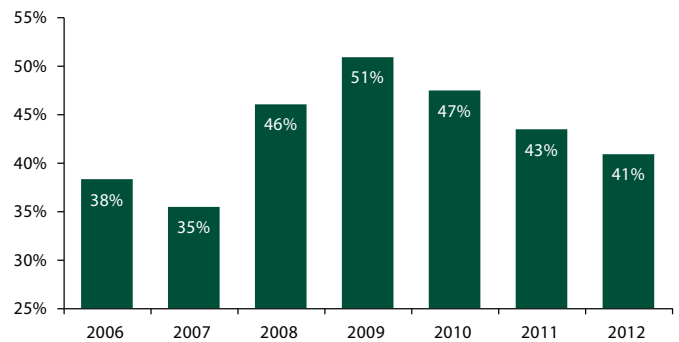
Leverage



Middle market enterprise values between \$25 million and \$500 million.

Source: Standard & Poors LCD.

Equity Contribution



Middle market enterprise values between \$25 million and \$500 million.

Source: Standard & Poors LCD.



Healthcare & Life Sciences Insider

Mergers & Acquisitions

Healthcare M&A Activity - 4Q 2012

NOTABLE ACTIVITY IN PROVIDERS

In January 2013, **Health Care REIT, Inc.** (NYSE:HCN) announced the completion of its acquisition of **Sunrise Senior Living, Inc.** (NYSE:SRZ). The acquisition was initially valued at \$875 million. However, the total amount invested in the Sunrise properties at the time of closing was \$3.4 billion and was expected to increase to \$4.3 billion. The \$4.3 billion investment is expected to include 120 wholly owned properties and five joint venture properties. The share price of \$14.50 represents a premium of 62 percent over Sunrise's closing price on the last trading day prior to announcement.

Transaction Multiples: ~2.2x Revenue; 14.5x EBITDA

In November 2012, **DaVita Inc.** (NYSE:DVA) closed its \$4.6 billion acquisition of **HealthCare Partners**, the combined company will now be known as DaVita HealthCare Partners Inc. HealthCare Partners operates medical groups and physician networks in central Florida, southern Nevada, and southern California. The Company has 152 clinics, 700 staff physicians and a network of more than 8,300 independent doctors. The combined company is now the largest managed healthcare company in the nation.

Transaction Multiples: ~2.0x Revenue; 8.9x EBITDA

In October 2012, **HCP, Inc.** (NYSE:HCP) entered into a definitive purchase agreement to acquire **133 senior housing communities** from a joint venture between **Emeritus Corp.** and **Blackstone Group LP** for \$1.7 billion. The properties to be acquired include assisted living, independent living, memory care, and skilled nursing facilities located in 29 states and encompassing 10,350 units. Emeritus will continue to operate the communities. HCP is a fully integrated REIT that invests primarily in real estate serving the healthcare industry in the United States.

Transaction Multiples: ~164,251x Enterprise Value/Unit

NOTABLE ACTIVITY IN LIFE SCIENCES & MEDICAL PRODUCTS

In December 2012, **Baxter International** (NYSE: BAX) acquired **Gambro AB** in a deal valued at \$4.0 billion. Based in Lund, Sweden, Gambro is a medical equipment manufacturer that has production facilities in nine countries and approximately 7,500 employees. The deal will combine the second, Baxter, and third, Gambro, largest manufacturers of dialysis equipment by revenue. The

acquisition will allow Baxter to expand Gambro's presence in emerging markets such as Latin America and Asia while also increasing Baxter's footprint in Europe.

Transaction Multiples: ~2.4x Revenue

In December 2012, **Linden Capital Partners** agreed to acquire **Young Innovations, Inc.** (NASDAQ:YDNT) in a deal valued at \$314 million. Based in Earth City, Missouri, Young is a leading U.S. manufacturer and distributor of supplies and equipment used by dentists, dental hygienists, dental assistants, and consumers. The share price of \$39.50 represents a premium of 8.7 percent over Young's closing price on the last trading day prior to announcement.

Transaction Multiples: ~2.8x Revenue; 10.4x EBITDA

In November 2012, **Allergan, Inc.** (NYSE:AGN) agreed to acquire **SkinMedica, Inc.** Allergan will pay \$350 million in an up-front payment with up to \$25 million in additional contingency payments based on certain sales targets. SkinMedica is focused on developing, acquiring, and commercializing products that improve skin appearance. Allergan plans to operate SkinMedica as a separate global business and will leverage a number of Allergan's existing preferred customer programs with the SkinMedica product line to provide additional benefits to physicians and patients.

Transaction Multiples: ~Valuation multiples undisclosed

In October 2012, **McKesson Corporation** (NYSE:MCK), the largest U.S. drug distributor, signed a letter of intent to acquire **PSS World Medical** (NASDAQ:PSSI) in a transaction valued at \$1.8 billion. The share price of \$29.00 represents a premium of 34 percent over PSS's closing price on the last trading day prior to announcement. PSS is a Jacksonville, Florida based distributor of medical products and supplies to physician offices and long-term care homes. McKesson plans to use both organizations' robust distribution infrastructure, private label offerings, and sales and customer service teams to provide the best of both companies to customers.

Transaction Multiples: ~.8x Revenue; 10.7x EBITDA



Healthcare & Life Sciences Insider Mergers & Acquisitions Healthcare M&A Activity - 4Q 2012

NOTABLE ACTIVITY IN OUTSOURCED SERVICES/ INFORMATICS

In December 2012, **BioScrip, Inc.** (NASDAQ:BIOS) entered into a definitive agreement to acquire **HomeChoice Partners, Inc.**, a leading provider of alternate-site infusion pharmacy services for \$70 million. Based in Norfolk, Virginia, HomeChoice is leading provider of alternate-site infusion pharmacy services with 14 infusion pharmacy locations in Pennsylvania, Washington, DC, Maryland, Virginia, North Carolina, South Carolina, Georgia, Missouri, and Alabama, servicing approximately 15,000 patients annually. **Transaction Multiples: ~1.0x Revenue**

In December 2012, **Sutherland Global Services** signed a definitive agreement to acquire **Apollo Health Street Limited** for \$184 million. Apollo is an associate company of Apollo Hospitals Enterprise Limited, a leading provider of healthcare business services and health information technology solutions in India. The acquisition will position the combined organization as a leading healthcare service provider with comprehensive information technology and business process integrated solutions.

Transaction Multiples: ~Valuation multiples undisclosed

In October 2012, **Peak Health Solutions** acquired the assets of Baltimore, Maryland-based **Health Data Essentials**, a consulting firm that works with Medicare and Medicaid managed-care plans. The acquisition enables Peak to offer advanced analytics and services built around risk adjustment, quality improvement, and utilization measurement, allowing customers to organize and access integrated quality and risk adjustment data to make it meaningful and actionable.

Transaction Multiples: ~Valuation multiples undisclosed

NOTABLE ACTIVITY IN PAYERS

In December 2012, **Humana, Inc.** (NYSE:HUM) completed its acquisition of **Metropolitan Health Networks, Inc.** (NYSE:MDF) in a transaction valued at \$740 million. Headquartered in Boca Raton, Florida, Metropolitan is a medical services organization that provides and coordinates medical care for approximately 87,500 Medicare Advantage, Medicaid, and other beneficiaries, primarily in Florida utilizing a primary care-centric business model. The share price of \$11.25 represents a premium of 3.7 percent over Metropolitan's closing price on the last trading day prior to announcement.

Transaction Multiples: ~1.0x Revenue; 7.7x EBITDA

In November 2012, **Torchmark Corporation** (NYSE:TMK) closed its acquisition of **Family Heritage Life Insurance Company of America** for \$232 million. The Cleveland, Ohio-based company is a supplemental health insurance provider that serves over 220,000 policy holders and employs 1,200 sales agents. Family Heritage specializes in life insurance and cancer, heart disease and stroke, and accident insurance products with a return of premium feature. The transaction was funded internally with cash from Torchmark's insurance subsidiaries, which include Globe Life and Accident, Liberty National Life, and United American life insurance companies.

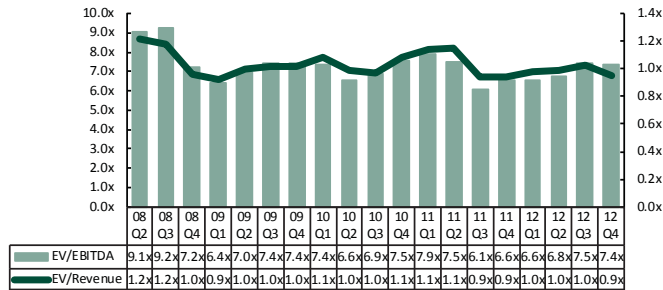
Transaction Multiples: ~Valuation multiples undisclosed

In October 2012, **UnitedHealth Group** (NYSE:UNH) agreed to acquire a 90 percent stake in **Amil Participações S.A.** (IBOV:AMIL3) for \$4.3 billion, net of \$600 million in Brazilian tax benefits. Based in Rio de Janeiro, Amil is Brazil's largest healthcare company, providing health and dental benefits, hospital and clinical services, and advanced care management to more than 5 million people. The acquisition gives UnitedHealth an entrance into Brazil, the second largest and fastest growing healthcare market in the western hemisphere. The combination is expected to create a new growth platform for UnitedHealth Group's benefits and services companies and will enable Amil to bring advanced technology, modern service, and clinical programs to further advance health care in Brazil.

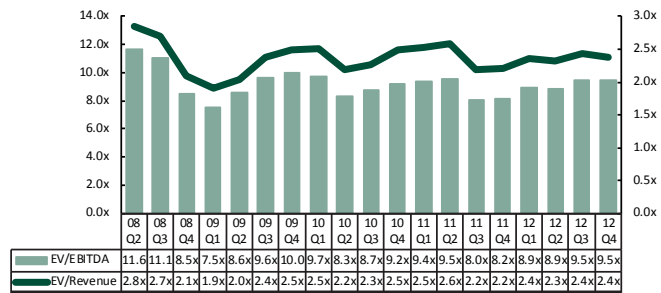
Transaction Multiples: ~.9x Revenue; 26.8x EBITDA

Relative Valuation Trends

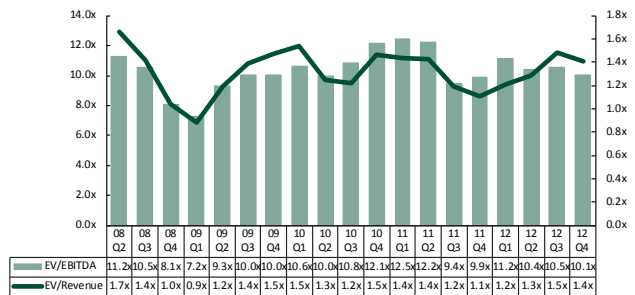
Providers



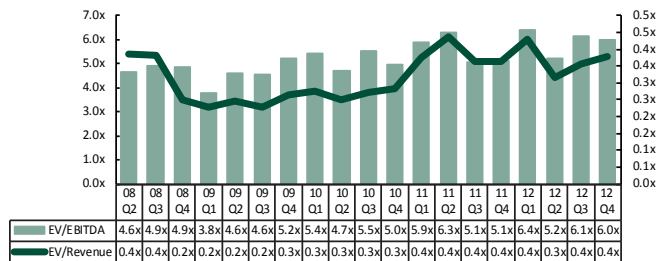
Medical & Life Science Products



Outsourced Services & Informatics



Payers

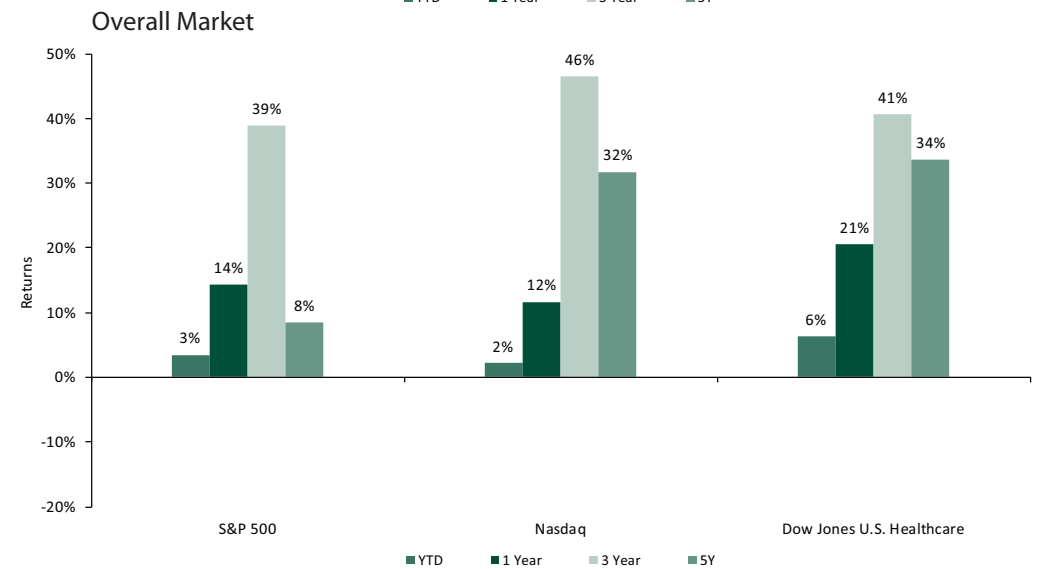
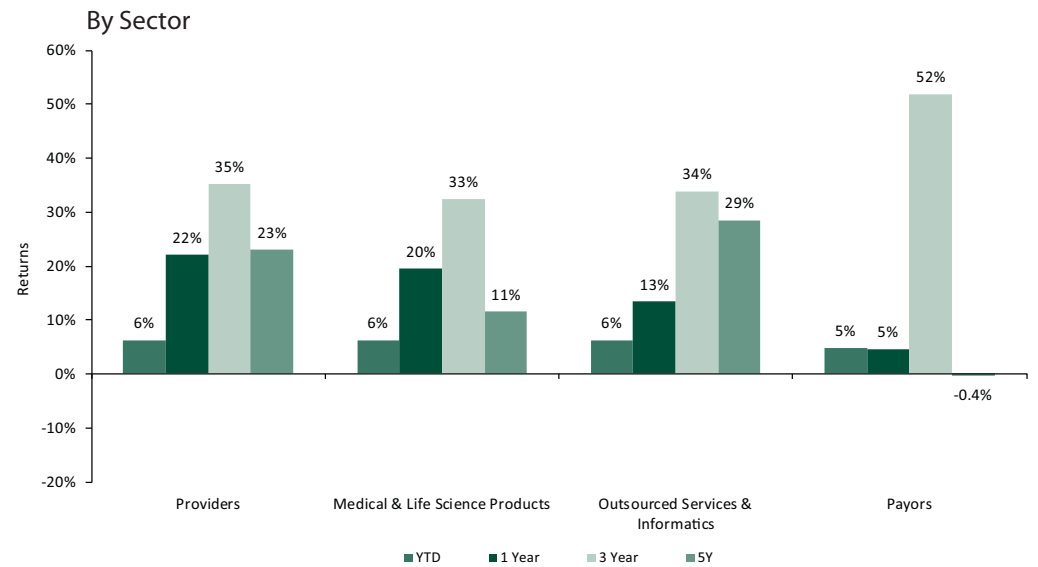


SOURCE: S&P Capital IQ.
 *Figures include latest reported earnings for index constituents. Q4 2012 earnings had not been released for all companies by publish date.





Sector Performance



Source: S&P Capital IQ.
As of 2/1/2013.





Case Study in Value Creation



BGL Client: TriHealth, Inc.

Formed in 1995, TriHealth, Inc. is a Cincinnati healthcare system affiliated with Catholic Health Initiatives (CHI) consisting of acute care hospitals Bethesda North and Good Samaritan of Cincinnati and more than 80 ancillary locations.

Target: Evendale Medical Center

Physician-founded in 2004, Evendale Medical Center (EMC) consists of two surgical hospitals and an imaging center located in the greater Cincinnati Ohio area. EMC's first surgical facility was expanded with the acquisition of Westside Regional Medical Center in 2010. The hospitals provide a comprehensive range of inpatient and outpatient surgical procedures in the areas of orthopedics, otolaryngology, podiatry, gastroenterology, plastic surgery, gynecology, pain management, ophthalmology, and general surgery as well as outpatient imaging procedures in MRI, CT, X-ray, fluoroscopy, and ultrasound.

Hospital Features

- 2 locations
- 10 operating rooms
- 29 inpatient rooms
- 50+ physician partners
- Complete imaging and diagnostic facility

Results:

TriHealth sought a strategically significant partnership that would expand its geographic reach and market presence. The purchase resulted in the creation of TriHealth Evendale Hospital.

BGL's Role in Value Creation

BGL was the exclusive financial advisor to TriHealth, providing complete buy-side services, including:

- Provided reliable analytics and advisory at each step of the evaluation and acquisition processes, leveraging BGL's extensive valuation and corporate finance experience and understanding of physician-driven partnerships.
- Managed communications with EMC's sell-side financial advisor throughout a multi-stage competitive bidding process, ensuring that TriHealth's bid was both prudent and well-positioned.
- Assisted in highlighting to physicians the advantages of a TriHealth partnership, securing deal approval from CHI and its board and maintaining regulatory compliance.



Global Healthcare & Life Sciences Practice

- | | | | |
|---|--|--|--|
| Medical Products <ul style="list-style-type: none"> • General Devices and Equipment • Medical Supplies • Disposables • Surgical Tools • Implantable Devices | Provider Services <ul style="list-style-type: none"> • Hospitals & Health Systems • Senior Living & Long-Term Care • Alternate Site Providers • Physician Services • Home Healthcare • Clinical Diagnostics | Outsourcing & Informatics <ul style="list-style-type: none"> • Pharmaceutical Services • Payer Services • Functional Outsourcing • Clinical Solutions and Outsourcing • Distribution • Staffing | Diagnostics & Research Tools <ul style="list-style-type: none"> • Instruments, Controls, Reagents • Lab Equipment & Supplies • Point-of-Care Diagnostics • Drug Discovery Tools |
|---|--|--|--|

Who We Are

Leading Independent Firm

- Independent investment banking advisory firm focused on the middle market
- Senior bankers with significant experience and tenure; partners average over 20 years of experience
- 40 banking professionals across four offices in Chicago, Cleveland, Salt Lake City, and Seattle
- Founding member and the exclusive U.S. partner of Global M&A, the world's leading partnership of investment banking professionals focusing on middle market transactions
- Deep industry experience across core sectors of focus, including: Business and Environmental Services, Basic Industrials, Consumer Products, Healthcare and Life Sciences, and Real Estate

Comprehensive Capabilities

M&A Advisory	Private Placements	Financial Advisory
Sell-Side Advisory Acquisitions & Divestitures Public & Private Mergers Special Committee Advice Strategic Partnerships & Joint Venture Formation Fairness Opinions & Fair Value Opinions	All Tranches of Debt & Equity Capital for: Growth Acquisitions Recapitalizations Dividends	General Financial & Strategic Advice Balance Sheet Restructurings Sales of Non-Core Assets or Businesses \$363 Auctions

Recent Transactions

 — acquired — BROWN GIBBONS LANG & COMPANY	 — a subsidiary of — BINGHAM MEMORIAL HOSPITAL <i>Experience Ourselves!</i> — acquired — Skyline Surgery Center BROWN GIBBONS LANG & COMPANY	 SENIOR HOUSING COMMUNITIES <i>has sold two and leased two continuing care retirement communities</i> — acquired by — BROWN GIBBONS LANG & COMPANY	 — acquired — BROWN GIBBONS LANG & COMPANY	 — acquired — BROWN GIBBONS LANG & COMPANY
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