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THE Health Care M&A MONTHLY

Inside the Health Care M&A Market

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Express Scripts Buying Medco For $29.1 Billion

In the largest deal ever recorded in the pharmacy benefits manager industry, Express Scripts is offering $29.1 billion to acquire competitor Medco Health Solutions. Read here about the potential economic benefits this deal offers as well as the daunting challenges it faces. *Page 1*

Medical Device M&A Robust

July's merger and acquisition market in the Medical Device industry posted strong results with 16 deals worth $9.6 billion. The sector continues its market-leading performance as the single most active sector from the first half of 2011. *Page 1*

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Lays Out $29.1 Billion For Medco Health Solutions

For as long as we can remember, the drive to contain escalating health care costs has been a recurring theme in the industry, not the least in the M&A market. Perhaps no other item has garnered as much attention as skyrocketing prescription drug costs, which have been exacerbated as much by an aging population as by technological innovation. The government's Medicare D program was enacted to tame costs for end-users, but its unfunded status has only contributed to debt and the raucous, rancorous debt-ceiling debate. As is so often the case, business got there first, offering market-based solutions to squeeze out costs in the supply chain from drug maker to consumer. Pharmacy benefit managers, or PBMs, have many retail tools to slash costs: among various strategies, they negotiate volume discounts with drug makers and, where possible, transition consumers to cheaper generic drugs. And while they generally operate behind the scenes, one recent mega-deal brought them back into the public eye in a big way.

Express Scripts (NASDAQ: ESRX) announced that it is buying

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Medical Device M&A Robust

Sector Posts 16 Deals Worth $9.6 Billion

The Medical Device industry has been the unheralded success story of this year's health care M&A market. The first half of 2011 saw a total 476 deals announced worth $125.5 billion. Of that amount, Medical Devices accounted for 82 deals (17% of total deal volume) and $45.5 billion (36% of total dollar volume). As we enter the second half of 2011, the Medical Device sector looks secure in its leading position.

Deal making in July maintained Medical Device's number one ranking. The industry posted 16 deals during the month worth a total of $9.6 billion which was, apart from the Express Scripts-Medco mega-deal, the largest single sector of health care. Roughly half of the deals involved cross-border transactions, testifying to the ongoing globalization of health care technology. The acquirers include a healthy mix of both strategic and financial buyers. The deals themselves targeted companies with a wide range of devices, products and technology, from surgical tools to *in vitro* diagnostic

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Express Scripts Eyes Top Spot

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competitor **Medco Health Solutions** (NYSE: MHS) for approximately $29.1 billion. Based in St. Louis, Express Scripts provides PBM and allied medical information management services; the company currently covers 50 million lives. On a trailing 12-month basis, it generated revenue of $44.9 billion, EBITDA of $2.5 billion and net income of $1.3 billion. Express Scripts operates in a highly competitive environment, which includes **CVS-Caremark** (NYSE: CVS) as well as Medco Health.

Express Scripts has been a very active player in the M&A market, making at least eight deals between 1998 and 2009; the largest of these was its 2009 $4.7 billion acquisition of **NextRx** from insurer **WellPoint** (NYSE: WLP). In 2006, it vied with **CVS** to acquire **Caremark Rx**, but was thwarted at the time, in part, by antitrust issues. Stung by that experience, the company has been on the hunt ever since for a transformative deal that could propel it into the top spot in the PBM industry.

Spun out of drug maker **Merck & Co.** (NYSE: MRK) in 2003, Medco provides PBM, specialty pharmacy and allied services to 65 million members. On a trailing 12-month basis, the company generated revenue of $66.7 billion, EBITDA of $3.0 billion and net income of $1.4 billion. Recently, however, MHS encountered a series of setbacks. It lost business with **UnitedHealth Care** (NYSE: UNH), which accounts for 17% of its current business. Seeking to go it alone, UNH will not renew its contract after 2012. MHS also lost its contract with California's **Calpers**. Both have weighed heavily on MHS's stock price but in so doing, have made the company a more attractive acquisition target at a cheaper price.

Enter Express Scripts with a solution for Medco's problems. It is making an offer to buy MHS for $29.1 billion in cash and stock. Under terms of the offer, each share of MHS stock is to be exchanged for $28.80 in cash and 0.81 shares of ESRX common stock. On closing, ESRX and MHS shareholders will own 59% and 41%, respectively, of the combined company.

ESRX's bid values MHS at $71.36 per share, a 28% premium to the stock's prior-day price (the CVS-Caremark transaction, by contrast, offered no premium). The deal is accordingly valued at 0.44x revenue, 9.7x EBITDA and $448 per member. At full price, this is the biggest deal ever in the PBM space, eclipsing CVS's $26.5 billion acquisition of Caremark Rx in late 2006.

If it closes, the deal will create one of the country's largest PBMs, easily rivaling CVS-Caremark. Not only will a combined ESRX/MHS benefit from greater economies of scale and greater opportunities to cut costs and enhance revenue, it also stands to reap the benefits that accrue to being number one in its field.

In the headlong rush to find a timely headline, an article in *Forbes* attributed the deal to the influence of Obamacare. Given the decades-long upward spiral of prescription drug costs, as well as the steady flow of M&A deals among PBMs over the same period, we think this is editorial overreach. Express Scripts has been in acquisition mode for over 10 years, and had its eye on the top spot for most of them. That said, a larger ESRX/MHS will certainly be able to play its part in promoting accountable

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care organizations, or ACOs, by capitalizing on the wealth of data at its fingertips. The combined company processes 1.6 billion scripts per year (CVS processes 940 million). By mining that data, it should be able to better meet the needs of ACOs by improving measures of quality and outcome and, so the theory goes, cutting costs.

Not everyone welcomes this deal with open arms, however. Among others, the **Independent Specialty Pharmacy Coalition**, formed last year, is asking the **Federal Trade Commission** to reject the deal on the grounds that it will hike rather than rein in costs. Others have argued that the deal is anticompetitive and will therefore fail to pass **Department of Justice** scrutiny. However, an interesting account published in *RealMoney* suggests that antitrust fears may be out of place. Since 1982, the DOJ has relied on the Herfindahl-Hirschman Index (HHI) to measure market concentration. Under the DOJ-FTC *2010 Horizontal Merger Guidelines*, a market in which the post-merger HHI is below 1,500 is regarded as "unconcentrated," between 1,500 and 2,500 as "moderately concentrated" and above 2,500 as "highly concentrated." A merger may raise "significant competitive concerns" if it increases the HHI by more than 200 points in a moderately concentrated market or by more than 100 points in a highly concentrated market.

In a thought-experiment, the article calculated an HHI of just 702 for the current, pre-merger PBM industry, which places it squarely in the unconcentrated camp. Assuming that the ESRX-MHS merger does go through, that index is calculated to jump to 964. So while the increase in raw points is big enough to draw regulators' and others' attention, the result is still within the bounds of an unconcentrated market. We assume that parties to the deal, pro and con, will tweak their dueling spreadsheets toward the results they would like. On that basis alone the transaction should go through, but we suspect the HHI index will not be the sole or final word to figure in the FTC's and DOJ's deliberations. A decision is expected by early next year. Whatever the outcome, the relatively low HHI indicates that there is ample room for further consolidation in the PBM industry.

In part to fund this deal, Express Scripts is taking out a 364-day $14.0 billion bridge loan, which is being arranged by **Credit Suisse** and **Citigroup**. So at least some folks still believe that to make money, you have to spend money—or, *absit omen*, take on debt. In addition to setting up the funding, Credit Suisse and Citigroup provided ESRX with financial advice on this transaction. Across the table, **JP Morgan Chase** and **Lazard Ltd.** provided MHS with similar advice. ❑

Health Care Services

Home Health Care

The Home Health Care industry saw just three deals in July; none came with a purchase price. Two involved DME companies. In the largest deal it has ever made, **ATG Rehab**, a provider of rehabilitation equipment based in Rocky Hill, Connecticut, acquired **Chesapeake Rehab Equipment**, a provider of assistive technology and services based in Baltimore. This deal adds Chesapeake's 13 branches in six Mid-Atlantic states to ATG's 41 locations in 24 states. • In the Midwest, **United Seating & Mobility** of Earth City, Missouri, acquired **Central Kentucky Mobility**, a provider of rehabilitation and mobility services based in Lexington, serving central, eastern and southern Kentucky. • Garland, Texas-based **Outreach Health Services** is selling its Medicare services business, which provides home health care services in dozens of communities, to **IntegraCare Holdings**, headquartered in Grapevine, Texas. This acquisition strengthens the buyer's presence in the Lone Star State, enlarging its service area from 140 to over 180 counties, and the number of home health patients it treats from 2,100 to over 2,800.

Hospitals

In July's largest hospital deal, **Catholic Health Partners** is selling **Mercy Health Partners of Tennessee** to **Health Management Associates** (NYSE: HMA) for $525.0 million, plus certain capital adjustments for working capital and the assumption of certain long-term lease liabilities. The portfolio includes seven hospitals with 833 beds located in Knoxville (2), Powell, Jefferson City, LaFollette, Oneida and Newport. The price to revenue multiple is 0.88x. The sale of so many not-for-profit facilities in one state to a for-profit company has raised an outcry from certain activist quarters; we wonder whether they will be as vocal when a hospital has to close its doors because it can no longer pay its employees, afford charity care, make capital improvements or service its debt.

Duke LifePoint Healthcare, LLC, a joint venture between **Duke University** and **LifePoint Hospitals** (NASDAQ: LPNT), has acquired its first hospital in North Carolina. The J/V is paying $76.6 million for an 80% interest in **Maria Parham Medical Center**, a 102-bed acute care facility in Henderson. Under terms of the deal, the J/V will pay off $46.6 million in debt and pay $30.0 million for a community foundation. The purchase price paid implies that for a 100% interest in the hospital, the price to revenue and price to EBITDA multiples would be 0.97x and 7.8x, respectively. The J/V has already acquired the cardiac catheterization business once owned by **MedCath** (NASDAQ: MDTH), which has been winding down operations. It is also negotiating to buy **Person Memorial Hospital**, a 102-bed acute care facility in Roxboro.

(continued on page 8)

The Month in M&A at a Glance: Health Care Services, July 2011

Sector	Deal Volume	Combined Price
Hospitals	8	$ 601,600,000
Long-Term Care	5	303,300,000
Rehabilitation	3	8,426,000
Physician Medical Groups	8	—
Home Health Care	3	—
Behavioral Health Care	0	—
Labs, MRI & Dialysis	0	—
Managed Care	0	—
Other Services	7	29,157,200,000
Total	34	$ 30,070,526,000

Deal Summaries—Services — Hospitals

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
Mercy Health Partners, Inc. Knoxville, Tennessee	Nonprofit	**Health Management Associates** Naples, Florida	NYSE: HMA	7/1/2011	$525,000,000

In Brief: Catholic Health Partners is selling seven-hospital Mercy Health Partners of Tennessee to Health Management Associates for $525.0 million, or 0.88x revenue. The seven hospitals have a combined total of 833 acute care beds.

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
Maria Parham Medical Center Henderson, North Carolina	Private	**Duke LifePoint Healthcare, LLC** Durham, North Carolina	NASDAQ: LPNT	7/25/2011	$76,600,000

In Brief: Duke LifePoint Healthcare, a joint venture, is paying $76.6 million for an 80% interest in Maria Parham Medical Center, a 102-bed acute care facility. This would be the first hospital that the J/V has acquired.

Deal Summaries—Services — Long-Term Care

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
Village at Fillmore Pond Bennington, Vermont	Private	**Emeritus Corporation** Seattle, Washington	NYSE: ESC	7/8/2011	$20,900,000

In Brief: An affiliate of Westport Capital Partners is selling the Village at Fillmore Pond, a 101-unit assisted living facility, to Emeritus for a purchase price of $20.9 million, or 4.5x revenue.

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
Four skilled nursing facilities Mid-Atlantic States	Private	**Sabra Health Care REIT** Irvine, California	NASDAQ: SBRA	7/11/2011	$97,500,000

In Brief: In a sale-leaseback transaction, Sabra Health Care REIT is paying $97.5 million for a portfolio of four skilled nursing facilities in the Mid-Atlantic region. These four have a combined total of 500 skilled nursing beds.

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
Two ALFs Mars, Pennsylvania	NYSE: SRZ	**Concordia Lutheran Ministries** Cabot, Pennsylvania	Nonprofit	7/14/2011	$15,900,000

In Brief: Sunrise Senior Living is selling two assisted living facilities in Pennsylvania with a combined total of 104 units to Concordia Lutheran Ministries for $15.9 million, or $150,000 per unit. They are Sunrise at Cranberry in Mars and Sunrise at Fox Chapel in Cheswick.

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
15-property portfolio Nine States	Private	**Chartwell Seniors Housing REIT** Mississauga, Ontario	TSX: CSH-UN	7/18/2011	$169,000,000

In Brief: ING Real Estate Investment is selling its 50% interest in 15 independent supportive living communities in nine states to Chartwell Seniors Housing REIT. The purchase price is $169.0 million.

Deal Summaries—Services — Rehabilitation

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
20-clinic physical therapy group	Private	**U. S. Physical Therapy, Inc.** Houston, Texas	NASDAQ: USPH	7/27/2011	$8,426,000

In Brief: U.S. Physical Therapy is paying $8,426,000 to acquire a 51% interest in a 20-clinic physical therapy group that posts a total of 116,000 patient visits annually.

Deal Summaries—Services — Other

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
Conmed Healthcare Management Hanover, Maryland	AMEX: CNDM	**Ayelet Investments, LLC** Highland Park, Illinois	Private	7/12/2011	$57,200,000

In Brief: Ayelet Investments is offering $57.2 million to acquire Conmed Healthcare Management, a company that provides correctional health care services. The deal offers shareholders a 26% premium, and will take the company private.

Deal Summaries—Services Other (cont.)

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
Medco Health Solutions, Inc. Franklin Lakes, New Jersey	NYSE: MHS	**Express Scripts, Inc.** St. Louis, Missouri	NASDAQ: ESRX	7/21/2011	$29,100,000,000

In Brief: Express Scripts is paying $29.1 billion in cash and stock to acquire Medco Health Solutions, a competitor that provides pharmacy benefit management, specialty pharmacy and allied services to approximately 65 million members.

Additional Transactions—Services

Sector	Target	Acquirer	Date
HOME HEALTH CARE	Chesapeake Rehab Equipment, Inc.	ATG Rehab	7/1/2011
	Central Kentucky Mobility	United Seating & Mobility	7/22/2011
	Medicare services business	IntegraCare Holdings, Inc.	7/27/2011
HOSPITALS	Wheaton Community Hospital	Sanford Health	7/5/2011
	Community Medical Center	Geisinger Health System	7/19/2011
	Moses Taylor Health Care System	Community Health Systems, Inc.	7/19/2011
	Northeast Health System, Inc.	Lahey Clinic Foundation, Inc.	7/19/2011
	Shamokin Area Community Hospital	Geisinger Health System	7/27/2011
	Tomball Regional Medical Center	Community Health Systems, Inc.	7/28/2011
PHYSICIAN MEDICAL GROUPS	South Jersey Heart Group	Lourdes Health System	7/1/2011
	PrimeDoc Management Services	Eagle Hospital Physicians	7/6/2011
	Coast To Coast Physicians Alliance, PA	IPC-The Hospitalist Co.	7/14/2011
	Post-acute practice	IPC-The Hospitalist Co.	7/14/2011
	North Florida Acute Care Specialists, LLC	IPC-The Hospitalist Co.	7/15/2011
	Del Mar Family Practice	Scripps Health	7/18/2011
	Kenwood Hospitalists	Sound Physicians	7/19/2011
	Pinnacle Anesthesia, P.L.	Mednax, Inc.	7/26/2011
REHABILITATION	Advanced Physical Therapy	ATI Physical Therapy	7/1/2011
	Henning & Cole Therapy Associates	Physiotherapy Associates	7/22/2011
OTHER	Blood Bank of the Redwoods	Blood Centers of the Pacific	7/1/2011
	Firecrest Clinical	ICON plc	7/14/2011
	Alliance Medical, Inc.	Bound Tree Medical	7/19/2011
	KeyClaims, Inc.	Coalition America	7/21/2011
	NorthWorks Occupational Health	U.S. HealthWorks	7/27/2011

Transaction Updates—Services

Sector	Target	Acquirer	Announced	Update
BEHAVIORAL HEALTH	**MeadowWood Behavioral Health** New Castle, Delaware	**Pioneer Behavioral Health** Peabody, Massachusetts	3/15/2011	7/5/2011

Recent Developments: Universal Health Services completed its $21.5 million sale of MeadowWood to Pioneer Behavioral on July 5, 2011.

Sector	Target	Acquirer	Announced	Update
HOSPITALS	**Smithville Regional Hospital** Smithville, Texas	**Seton Family of Hospitals** Austin, Texas	9/1/2010	7/1/2011

Recent Developments: This deal closed on July 1, 2011. Seton Family will lease Smithville Regional Hospital for a term of 30 years.

Sector	Target	Acquirer	Announced	Update
HOSPITALS	**Six long-term acute care hospitals** Birmingham, Alabama	**LifeCare Holdings, Inc.** Plano, Texas	5/18/2011	7/26/2011

Recent Developments: The parties agreed to remove HealthSouth Hospital of Houston from the portfolio of long-term acute care facilities, leaving a new total of five hospitals with 355 beds being sold for $117.5 million.

The Health Care M&A Monthly has a quarterly supplement which details all publicly announced health care services mergers and acquisitions. Because many companies do not reveal details of their acquisitions, especially price and terms, at the time of the announcement, those details, when available, and additional information about the target company and acquirer are provided in the quarterly report after researching SEC documents and other primary sources.

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Northeast Pennsylvania was a hotbed of hospital M&A activity in July, producing three transactions. Scranton is the focus of two deals, not the least because The Electric City has three major acute care hospitals but probably capacity for only two, so a merger may be the key to survival. **Community Health Systems** (NYSE: CYH) is paying an undisclosed amount to buy the **Moses Taylor Health Care System**, which operates 217-bed **Moses Taylor Hospital** in Scranton and 25-bed **Mid-Valley Hospital** in Peckville. Readers will recall that CYH just closed on the acquisition of three-hospital **Mercy Health System**, also based in Scranton. The two CYH deals effectively squeeze the remaining player, **Community Medical Center** (CMC), a 297-bed acute care hospital that generates net patient revenue of about $158.0 million. Enter **Geisinger Health System**, based in Danville, Pennsylvania, with a merger proposal. Geisinger has indicated that it will invest $158.6 million over seven years to enhance clinical programs and implement new IT systems at CMC. Finally, Geisinger also received state approval for its merger with **Shamokin Area Community Hospital**, a 55-bed acute care hospital in Coal Township.

Community Health Systems also made an acquisition in Tomball, Texas, buying 358-bed **Tomball Regional Medical Center** in an asset purchase deal. The target facility serves the Northwest Houston market, and is the buyer's nineteenth hospital in Texas. Although no price was given at the time, CYH intends to make at least $50.0 million in capital improvements over the next five years.

In Massachusetts, we finally heard of a deal that did not involve **Steward Health**. **Northeast Hospital System** (NHS) in Beverly is merging with the **Lahey Clinic Foundation** in Burlington. NHS is an integrated delivery system with four acute care hospitals, behavioral health and seniors services operating in the North Shore and Cape Ann markets. Lahey Clinic is a physician-led delivery system including a 317-bed teaching hospital, outpatient clinics and a medical group of over 500 physicians. Under terms of the affiliation agreement, a parent organization is to be created by NHS and Lahey to govern both. This combination creates a vertically integrated delivery system with a larger physician group and broader acute care network than either component organization has by itself, and sets up a framework for establishing an ACO.

Prince George's County in Maryland is negotiating with the **University of Maryland Medical System** (UMMS) to take control of the county's three public hospitals, which have racked up debt of $160.0 million. Since 2007, repeated attempts to off load these troubled facilities to the state or other potential buyers have failed. It's an uphill battle against unattractive demographics: about 150,000 county residents are without health insurance, and the county has a higher than average incidence of obesity, cardiovascular problems, diabetes, infant mortality and other chronic health care problems. It is unknown at this juncture whether eight-hospital UMMS can absorb such a financial shock to the system.

After negotiations with bondholders failed to restructure and reduce its $43.0 million of bond debt, **Northern Berkshire Healthcare** in Massachusetts has filed for Chapter 11 bankruptcy protection. Much of the debt is related to an expansion of **North Adams Regional Hospital**, but some is attributed to the 1999 purchase of the **Sweet Brook** nursing home and **Sweetwood** assisted living facility. Although NBS sold both Williamstown properties last August for $6.6 million and the assumption of $15.0 million in liability debt, NBS still retains $13.0 million in debt from them. Ultimately, NBS hopes to join forces with a larger system, such as the **Berkshire Health System**, but no one is going to sit down with them until they right-size their debt problem.

Long-Term Care

The top two deals in July's Long-Term Care market involve REITs. In the larger of the two, **Chartwell Seniors Housing REIT** (TSX: CSH-UN) is paying $169.0 million for the 50% interest it does not already own in a portfolio of 15 independent supportive living communities with 2,947 units in nine states. The selling partner is **ING Real Estate**. Of the total consideration, $135.8 million is in assumed debt, the remainder in cash. This is the second joint venture with ING that Chartwell has bought out in the past two years. It simplifies and consolidates the buyer's investments in the United States. The debt Chartwell is assuming bears a weighted average interest rate of 6.27% with a weighted average term to maturity of 4.5 years. The cash portion of the purchase price is to be paid out of the company's existing credit facility.

In July's second REIT deal, a sale-leaseback, **Sabra Health Care REIT** (NASDAQ: SBRA) is acquiring a portfolio of four skilled nursing facilities in the Mid-Atlantic region with a combined total of 500 beds. The price is $97.5 million, or $195,000 per unit. The properties are to be operated under a long-term lease, which is expected to provide an initial yield on cash rent of 8.75%. The deal diversifies SBRA's portfolio, which consists primarily of the **Sun Healthcare Group** (NASDAQ: SUNH) properties it acquired when it was spun off from Sun last year. **Signal Hill Capital Group, LLC** is providing the seller with financial advice on this transaction.

Emeritus (NYSE: ESC) is paying $20.9 million to acquire the **Village at Fillmore Pond**, a 101-unit assisted living facility in Bennington, Vermont, from an affiliate of **Westport Capital Partners**. The facility contains 45 assisted living, 44 independent living and 12 memory care units, and was 92% occupied at the time of sale. The price to revenue multiple is 4.5x and the price to EBITDA multiple is 13.5x. Once occupancy in the memory care unit stabilizes, increasing revenue and cash flow, the multiples should be 4.1x and 11.3x, respectively. The Village is the last of four properties in the Northeast sold by Westport Capital; two others were in Massachusetts and the last one in New Hampshire. **Marcus & Millichap** represented the seller in this transaction.

Concordia Lutheran Ministries of Cabot, Pennsylvania, acquired two assisted living facilities in the Keystone State from **Sunrise Senior Living** (NYSE: SRZ). The first is **Sunrise of Cranberry**, a 60-unit ALF with 73 beds in Mars, the second is **Sunrise of Fox Chapel**, a 46-unit ALF specializing in memory care with 58 beds in Cheswick. The price for the two is $15.9 million, or $150,000 per unit,

Toward the end of July, **The Centers for Medicare and Medicaid Services** dropped a major bombshell on the skilled nursing market with a drastic 11.1% cut on certain Medicare reimbursement rates, pummeling stock prices throughout the industry. As an immediate result, **Skilled Healthcare Group** (NYSE: SKH) discarded its plans to sell off either the company or its real estate assets as there was now no real chance to maximize shareholder value with such a depressed stock price. Since the fall-out from CMS's decision is still choking the air, we cannot predict the exact consequences for the Long-Term Care M&A market, particularly for skilled nursing propeties, except to say that the second half of the year will probably not be nearly as rosy as the first.

Physician Medical Groups

July's Physician Medical Group M&A market saw eight deals, with six involving specialist and two involving general practices. Among the specialty practices, hospitalists accounted for five deals. Two deals had hospitals as buyers while the remaining six had other physician practices or practice management companies. None of these transactions came with announced prices.

In South Jersey, the **Lourdes Health System** acquired **South Jersey Heart Group**, a physician medical group practice specializing in cardiology whose 17 physicians provide services from five offices in Camden, Burlington and Gloucester counties. This acquisition expands Lourdes' network of cardiologists in New Jersey. It is the second cardiology practice Lourdes has acquired this year; in January, it acquired 31-physician **Associated Cardiovascular Consultants, PA**.

Two privately held hospitalist PPMs recently joined forces: **PrimeDoc Management Services** of Asheville, North Carolina merged with **Eagle Hospital Physicians** of Dallas, Texas. The former brings to the party 100 physicians serving seven hospitals in four states while the latter manages over 200 hospitalists. Once the deal closes, Eagle's 300-plus physicians will serve over 30 client hospitals in seven states in the Southeast and Mid-Atlantic.

IPC-The Hospitalist (NASDAQ: IPCM) made three acquisitions in Florida: **Coast To Coast Physicians Alliance** in Orlando, the post-acute care practice of Eladio Dieguez, MD in Ocala and **North Florida Acute Care Specialists** in Jacksonville. These transactions strengthen the buyer's provider network in place in Jacksonville and Ocala and mark its extension into Orlando.

Rehabilitation

U.S. Physical Therapy (NASDAQ: USPH) announced buying a 20-clinic physical therapy group. The practice currently has 116,000 annual patient visits and generates revenue of $13.0 million. Under terms of the deal, USPH is paying $8,426,000 for a 51% interest in the practice. This acquisition brings the buyer into a new market area. The price paid implies a price to revenue multiple of 1.3x for a 100% interest in the target business. The deal was financed with borrowings under USPH's credit line and a seller note. To help swing this deal and finance future activity, USPH recently increased its credit line from $50.0 million to $75.0 million. The loan facility was provided by **Bank of America** and matures in August 2015. Funds may be used for working capital, acquisitions and other corporate purposes.

Other

Conmed Healthcare Management (AMEX: CNMD), a provider of health care services to adult and juvenile correctional facilities in nine states, received a privatization offer. **Ayelet Investments**, an affiliate of James Desnick, MD, is offering $3.85 per share, or a total of $57.2 million, to buy out the company. This transaction, which offers shareholders a 26% premium to the stock's prior-day price and is valued at 0.9x revenue, will ultimately result in CNMD's delisting. This transaction has fully committed financing to be provided by **Levine Leichtman Capital Partners**, a Los Angeles-based private equity firm. **Gleacher & Company Securities, Inc.** provided CNMD with financial advice on this deal. Initially, Gleacher contacted 86 potential buyers, 14 of whom were strategic and 72 of whom were financial buyers. ❑

Health Care Financing

Venture Capital

Nevro Corp., a neuromodulation company based in Menlo Park, California, and focused on relieving chronic pain, recently completed a $58.0 million financing round led by new investor **Johnson & Johnson Development Corporation**. Also joining this round were existing investors **Aberdare Ventures**, **Accuitive Medical Ventures**, **Bay City Capital**, **Mayo Clinic**, **MPM Capital** and **Three Arch Partners**. Proceeds will be used to sponsor a pivotal clinical study in the United States and to provide support for Nevro's international commercialization strategy. The company's medical devices offer an advance in the treatment of chronic pain through neuromodulation technology; its *Nevro Spinal Cord Stimulation System* is commercially available outside the United States.

Transcend Medical, an ophthalmic device company also based in Menlo Park, closed on its second tranche, bringing the total of Series B to $51.0 million. Taking part in this tranche were **Investor Growth Capital**, **Canaan Partners**, **Finistere Ventures**, **HLM Venture Partners**, **Kaiser Permanente Ventures**, **Latterell Venture Partners**, **Morgenthaler Ventures**, **Split Rock Partners** and **Technology Partners**. Proceeds will go to developing additional infrastructure and resources for a U.S. pivotal study of the *CyPass Micro-Stent*, as well as for other ongoing trials. The microstent is intended to treat glaucoma by early intervention to control intraocular pressure.

SARcode Bioscience, a biopharma based in Brisbane, California, and focused on ophthalmics, closed on a $44.0 million Series B equity financing. Led by **Sofinnova Ventures**, the round was augmented by **Rho Ventures** and existing investors **Alta Partners** and **Clarus Venture Partners**. Proceeds of the round are to finance further clinical development of *SAR 1118*, a compound for the treatment of dry eye syndrome. It is a topical small-molecule integrin antagonist that inhibits T-cell mediated inflammation, which is a key part of dry eye. SARcode plans to initiate phase 3 trials in the second half of the year.

Boston-based **Verastem**, a biopharma involved in the discovery and development of drugs to treat breast and other cancers by targeting cancer stem cells, has raised $32 million through a Series B financing. **Advanced Technology Ventures** and **Astellas Venture Management** led the round, and were joined by existing investors **Bessemer Venture Partners**, **Cardinal Partners**, **Longwood Founders Fund** and MPM Capital. Proceeds from the capital raise will finance ongoing R&D and will progress drug candidates into clinical trials. The first candidate is projected to enter clinical trials next year.

Toronto-based **DVS Sciences**, an analytical equipment and reagents development company, completed a $14.6 million Series A financing. Led by **5AM Ventures**, the round also included **Mohr Davidow Ventures**, **Pfizer Venture Investments** and **Roche Finance Ltd.** Proceeds from this round will help accelerate commercialization of DVS's *CyTOF* analytical instruments by creating a state-of-the-art manufacturing facility in Ontario. This is the largest Series A capital raise by a Canadian life sciences and medical technology company in several years.

Meanwhile, down river in Montreal, **gIcare Pharma**, a developer of therapeutic drugs in gastroenterology, recently closed on a $7.0 million Series A financing. gIcare is developing a novel alternative to perform safe, painless colonoscopies without sedation. The round was co-led by **Forbion Capital Partners** and **Genesys Capital**. gIcare's *GIC-1001* is a non-centrally acting opiod interacting with colonic mu and kappa opiod receptors; the candidate also has antispasmodic effects. Both properties offer a potential competitive advantage over the sedatives that are currently used in conjunction with colonoscopies, which often require a recovery room.

The MoneyTree Report by **PricewaterhouseCoopers** and the **National Venture Capital Association** (NVCA) posted the recent results of venture capital activity. Q2:11 recorded a total of 966 VC deals in all industries worth a combined total of $7.5 billion, up roughly 19% from the previous quarter's 814 deals worth $6.3 billion. This represents the highest level of overall VC activity since Q2:08. Among individual industries, the biotechnology industry captured the second largest share of activity after software. Biotech deal volume increased 20% from 97 in Q1:11 to 116 in Q2:11 while dollar volume rose 46% from $822.0 million to $1.2 billion in the same period. While deal volume remained relatively flat at 90 transactions, the medical device industry saw a 26% increase in dollars from $668.0 million in Q1:11 to $841.0 million in Q2:11. Internet-specific companies, including what we call e-Health, also posted strong results.

Despite these positive results, NVCA president Mark Heesen questions whether this growth rate is sustainable. Over the past three years, he notes, VC firms have been investing more dollars than they have been raising from institutional investors. If these companies do not see more exits, and then more fundraising, they will not have the capital they need to invest. This potential shortfall should be of concern to VC investors, he believes, if only so they can position themselves and their funds for the tremendous opportunities in the next decade.

Private Placements

QRxPharma Limited (ASX: QRX) completed a private placement to institutions and professional investors, raising A$25.0 million. The placement, which was oversubscribed, was well supported by existing and new investors, including fund managers based in Australia, the U.K. and the U.S. The issue price is A$1.45 per share, which represents a 10% discount to the prior-day closing price. The proceeds will be used to progress *MoxDuo IR*, the company's candidate for treating moderate to severe pain, through FDA approval and commercialization, leading to a product launch in 2012. **RBS Morgans Corporate** and **Bell Potter Securities** were joint lead managers.

Zogenix (NASDAQ: ZGNX), a pharma focused on CNS disorders and pain, recently closed on its royalty financing with **Cowen Royalty Partners, II**. ZGNX received a $30.0 million revenue investment advance from Cowen Royalty in mid-July. In addition, ZGNX issued 388,601 shares of its stock to Cowen Royalty for gross proceeds of $1.5 million, and warrants that are exercisable for 10 years into 225,000 shares of ZGNX common stock at an exercise price of $9.00.

Other Financings

Hospital giant **HCA, Inc.** (NYSE: HCA) recently clinched a $5.0 billion bond deal in what is thought to be the biggest junk-bond sale since the onset of the Credit Crunch. Proceeds from the high-yield bonds are intended to replace more expensive loans from its 2006 privatization by a group of private equity investors, and reduce its leverage. Banks that led the bond offering include J.P. Morgan, **Barclays**, **BoA Merrill Lynch**, Citigroup, **Deutsche Bank** and **Wells Fargo**. It was a gutsy move, given the threat, then pending in Congress, of letting the U.S. default on its debt.

American Realty Capital Healthcare Trust, a non-traded real estate investment program recently announced two transactions. First, it entered a contract to acquire 12 health care facilities for $257.5 million, bringing the total size of its portfolio to 17 properties aggregating $307.1 million. Included in the portfolio ARC Healthcare intends to acquire are three rehab hospitals, two outpatient surgery centers, two hospital/medical office buildings, three post-acute rehab facilities, one LTAC and one medical office building. Second, ARC has commenced its initial public offering of up to 150 million shares of common stock at a purchase price of $10.00 per share. Proceeds will be used to acquire further income-producing health care facilities in the U.S. **Realty Capital Securities, LLC** is the dealer-manager of the offering. ❑

Medical Device M&A Robust

(continued from page 1)

tests, from microassays to endoscopy systems.

July's two largest Medical Device deals, both in the billion-dollar range, involve the acquisition and privatization of publicly traded corporations by financial buyers. In the first, **Kinetic Concepts** (NYSE: KCI) is being acquired by a consortium of private equity investors for $6.3 billion. Based in San Antonio, KCI is engaged in making and selling therapies and products for the advanced wound care and regenerative medicine markets. On a trailing 12-month basis, the company generated revenue of $2.0 billion, EBITDA of $624.0 million and net income of $272.0 million. **Apax Partners**, based in London, England, is leading the consortium of buyers, which also includes the **Canada Pension Plan and Investment Board** and **Public Sector Pension Investment Fund**. The deal values each share of KCI stock at $68.50, which offers shareholders a 6.2% premium to the prior-day price. In terms of multiples, the deal is worth nearly 3.2x revenue and 10.1x EBITDA. The buyers intend to expand Kinetic Concepts' core business, develop new products and expand into new geographies, all outside the scrutiny of the public markets. **Morgan Stanley & Co.** is acting as financial advisor to the consortium, which has secured committed debt financing from Morgan Stanley & Co., BofA Merrill Lynch and Credit Suisse AG.

The Month in M&A at a Glance: Health Care Technology, July 2011

Sector	Deal Volume	Combined Price
Medical Devices	16	$ 9,596,392,000
Pharmaceuticals	10	1,705,300,000
Biotechnology	6	547,720,000
e-Health	4	368,000,000
Total	36	$ 12,217,412,000

In July's second largest deal, Texas-based **TPG Capital** is buying **Immucor** (NASDAQ: BLUD), an *in vitro* diagnostics company, for $1.97 billion. Based in Norcross, Georgia, Immucor makes and sells blood-screening tests that are used before transfusions. On a trailing 12-month basis, it generated revenue of $331.0 million, EBITDA of $149.0 million and net income of $87.0 million. With its impressive margins, BLUD holds a leading 55% share of the $1.2 billion market for blood reagents and automated blood systems, ahead of second place **Johnson & Johnson** (NYSE: JNJ).

Under terms of the deal, each share of BLUD is to be exchanged for $27.00 in cash, which represents a 30.2% premium to the stock's prior-day price. The relevant acquisition multiples are 5.95x revenue and 13.2x EBITDA. Apparently, BLUD is content to take the 30% premium instead of attempting to grow a business that has not been growing in the past few quarters. But the deal may appear unduly premature; it comes just one month after a new CEO took control of BLUD. It does contain a go-shop provision until mid August for other interested parties to speak up. **Goldman Sachs** provided Immucor with financial advice. Citi and J.P. Morgan Securities LLC provided TPG with financial advice and also provided the company with fully committed financing.

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Deal Summaries—Technology — Biotechnology

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
Amorcyte, Inc. Hackensack, New Jersey	Private	**NeoStem, Inc.** New York, New York	AMEX: NBS	7/14/2011	$18,425,000

In Brief: In a transaction that is worth approximately $18.425 million, NeoStem is acquiring Amorcyte, a development stage company focusing on novel treatments for cardiovascular disease.

Allos Therapeutics, Inc. Westminister, Colorado	NASDAQ: ALTH	**AMAG Pharmaceuticals, Inc.** Lexington, Massachusetts	NASDAQ: AMAG	7/20/2011	$258,200,000

In Brief: In a deal valued at $258.2 million, Allos Therapeutics is merging with AMAG Pharmaceuticals. It is believed the combination can achieve cost savings synergies of between $55.0 million and $60.0 million.

Icagen, Inc. Durham, North Carolina	NASDAQ: ICGN	**Pfizer, Inc.** New York, New York	NYSE: PFE	7/20/2011	$56,000,000

In Brief: Pfizer is paying $56.0 million for the 89% interest it does not already own in Icagen, a biopharmaceutical company that discovers, develops and commercializes orally-administered small molecule drugs that modulate ion channel targets.

Deal Summaries—Technology — e-Health

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
M*Modal Pittsburgh, Pennsylvania	Private	**MedQuist Holdings, Inc.** Mt. Laurel, New Jersey	NASDAQ: MEDH	7/12/2011	$130,000,000

In Brief: In a transaction that is valued at 5.4x revenue, MedQuist Holdings is buying M*Modal, a provider of speech recognition technology and cloud-based software solutions for the medical transcription industry.

PayFlex Holdings, Inc. Omaha, Nebraska	Private	**Aetna, Inc.** Hartford, Connecticut	NYSE: AET	7/18/2011	$202,000,000

In Brief: Aetna is paying $202.0 million to purchase PayFlex Holdings, a company that provides web-based benefit administration services and solutions for plan sponsors who offer HSAs, HRAs and similar plans.

Proxsys, LLC Birmingham, Alabama	Private	**athenahealth, Inc.** Watertown, Massachusetts	NASDAQ: ATHN	7/21/2011	$36,000,000

In Brief: athenahealth is paying up to $36.0 million in upfront and milestone payments to buy Proxsys, a provider of cloud-based care coordination and revenue-cycle services that focuses on the relationship between hospitals and physicians.

Deal Summaries—Technology — Medical Devices

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
Sandel Medical Industries, LLC Chatsworth, California	Private	**Ansell Limited** Richmond, Australia	ASX: ANN	7/4/2011	$13,500,000

In Brief: Ansell is paying $13.5 million to buy Sandel Medical Industries, which develops staff and patient safety disposable products.

Immucor, Inc. Norcross, Georgia	NASDAQ: BLUD	**TPG Capital** Fort Worth, Texas	Private	7/5/2011	$1,970,000,000

In Brief: The private equity firm TPG Capital is paying $1.97 billion, or nearly 6x revenue, to acquire Immucor, an *in vitro* diagnostics company that develops, manufactures and sells reagents and automated systems focused on blood analysis.

Parallax, Contour product lines Austin, Texas	NASDAQ: ARTC	**NeuroTherm** Wilmington, Massachusetts	Private	7/5/2011	$5,500,000

In Brief: ArthroCare Corp. is selling its discontinued *Parallax* and *Contour* product lines, both of which are used in treating spinal pain. The buyer is NeuroTherm, who is paying $5.5 million in cash to acquire the assets.

Deal Summaries—Technology Medical Devices *(cont.)*

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
Radiancy, Inc. Orangeburg, New York	Private	**PhotoMedex, Inc.** Montgomeryville, Pennsylvania	NASDAQ: PHMD	7/5/2011	$174,000,000

In Brief: In a merger worth about $174.0 million, PhotoMedex is acquiring Radiancy, a global direct-to-consumer and dermatological products company. After conversion of PHMD's common stock equivalents, Radiancy shareholders will own about 75% of the combined company.

Rowa GmbH Kelberg, Germany	Private	**CareFusion Corp.** San Diego, California	NYSE: CFN	7/5/2011	$150,000,000

In Brief: CareFusion is paying $150.0 million in cash to acquire Rowa, which manufactures robotic drug storage and retrieval systems.

Scienon AG Dortmund, Germany	Private	**SQI Diagnostics** Toronto, Ontario	TSX-V: SQD	7/5/2011	$18,400,000

In Brief: SQI Diagnostics is paying $18.4 million to buy Scienon, a company that provides systems and services for contact-free printing of biological and chemical agents for human diagnostics, pharmaceuticals and veterinary uses.

Spirus Medical, Inc. Stoughton, Massachusetts	Private	**Olympus Corporation** Tokyo, Japan	T: 7733	7/6/2011	$60,000,000

In Brief: Olympus Corp. is paying up to $60.0 million in an upfront payment and an earnout to acquire Spirus Medical, a manufacturer of endoscope insertion devices for use in gastrointestinal procedures.

PEAK Surgical, Inc. Palo Alto, California	Private	**Medtronic, Inc.** Minneapolis, Minnesota	NYSE: MDT	7/7/2011	$105,000,000

In Brief: Medtronic is paying $105.0 million to acquire the interest it does not already own in PEAK Surgical, a company that has developed a tissue dissection device, *PlasmaBlade*, for use in radiofrequency surgeries. This raises Medtronic's total investment to $120.0 million.

Salient Surgical Technologies Portsmouth, New Hampshire	Private	**Medtronic, Inc.** Minneapolis, Minnesota	NYSE: MDT	7/7/2011	$480,000,000

In Brief: Medtronic is paying $480.0 million for the partnership interest it does not already own in Salient Surgical Technologies, a company that develops and markets advanced energy devices for use in surgical procedures. Medtronic's total investment in Salient is $525.0 million.

Kinetic Concepts, Inc. San Antonio, Texas	NYSE: KCI	**Apax Partners** London, England	Private	7/13/2011	$6,300,000,000

In Brief: Apex Partners is offering $6.3 billion to acquire Kinetic Concepts, which develops, manufactures and sells therapies and products for the advanced wound care and regenerative medicine markets. The deal offers shareholders a 6.2% premium.

Wagner Analysen Technik GmbH Bremen, Germany	Private	**Orexo** Uppsala, Sweden	OMX: ORX	7/14/2011	$1,992,000

In Brief: Orexo is paying nearly $2.0 million for Wagner Analysen Technik, a company that manufactures IRIS instruments and substrates for diagnostic breath tests used in gastrointestinal disorders.

mtm laboratories AG Heidelberg, Germany	Private	**Roche Holding AG** Basel, Switzerland	VX: ROG	7/19/2011	$265,000,000

In Brief: Roche Holdings is paying up to $265.0 million to acquire mtm laboratories, a company that is developing *in vitro* diagnostics with a focus on the early detection and diagnosis of cervical cancer.

DNA Genotek, Inc. Ottawa, Canada	Private	**OraSure Technologies, Inc.** Bethlehem, Pennsylvania	NASDAQ: OSUR	7/26/2011	$53,000,000

In Brief: In a transaction that is valued at 3.8x revenue, OraSure Technologies is paying $53.0 million in cash to acquire DNA Genotek, a provider of oral fluid sample collection, stabilization and preparation products for molecular diagnostic applications.

Deal Summaries—Technology

Pharmaceuticals

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
Dermik Paris, France	NYSE: SNY	**Valeant Pharmaceuticals Intl.** Mississauga, Ontario	NYSE: VRX	7/11/2011	$425,000,000

In Brief: Sanofi is selling its Dermik dermatology unit to Valeant Pharmaceuticals International for $425.0 million, or 1.8x revenue. Dermik has a portfolio of therapeutic and esthetic dermatology brands, and performs contract manufacturing services.

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
Ortho Dermatologics assets New Brunswick, New Jersey	NYSE: JNJ	**Valeant Pharmaceuticals Intl.** Mississauga, Ontario	NYSE: VRX	7/15/2011	$345,000,000

In Brief: Janssen Pharmaceuticals, a unit of Johnson & Johnson, is selling the assets of Ortho Dermatologics to Valeant Pharmaceuticals International for a price of $345.0 million, or 2.3x revenue.

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
Nine marketed products San Diego, California	Private	**Shionogi & Co. Ltd.** Osaka, Japan	T: 4507	7/18/2011	$127,000,000

In Brief: Victory Pharma is selling nine currently marketed products to Shionogi & Co. for a total of $127.0 million. Victory's drug portfolio includes seven treatments for pain and two for infectious diseases.

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
Vicept Therapeutics Malvern, Pennsylvania	Private	**Allergan, Inc.** Irvine, California	NYSE: AGN	7/19/2011	$275,000,000

In Brief: Allergan is paying up to $275.0 million to buy Vicept Therapeutics, a specialty pharmaceutical company that is focused on developing topical therapies for the treatment of rosacea and related disorders.

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
Amira Pharmaceuticals San Diego, California	Private	**Bristol-Myers Squibb, Inc.** New York, New York	NYSE: BMY	7/21/2011	$475,000,000

In Brief: Bristol-Myers Squibb is paying up to $475.0 million to acquire Amira Pharmaceuticals, a small molecule pharma company focused on drugs to treat inflammatory and fibrotic diseases.

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
Collaboration agreement Mumbai, India	Private	**Medicis Pharmaceutical Corp.** Scottsdale, Arizona	NYSE: MRX	7/25/2011	$58,000,000

In Brief: In a deal worth as much as $58.0 million, Lupin Pharmaceuticals is entering into a collaboration agreement with Medicis to develop multiple therapeutic compounds using Lupin's formulation technologies.

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
Patent portfolio Dublin, Ireland	LSE: AGI	**Warner Chilcott plc** Rockaway, New Jersey	NASDAQ: WCRX	7/26/2011	$300,000

In Brief: AGI Therapeutics is selling Warner Chilcott a portfolio of patents pertaining to a novel early-stage product under development for use in treating gastrointestinal conditions, including ulcerative colitis. The purchase price is $300,000, paid in cash.

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Medical device giant **Medtronic** (NYSE: MDT) announced two deals in July, the third- and seventh-largest, respectively, in the sector. Both of them tied up some loose ends. In the larger of the two, MDT is acquiring the ownership interest it does not already have in **Salient Surgical Technologie**s for $480.0 million. Based in New Hampshire, Salient Surgical develops and markets advanced energy devices for use in surgical procedures, including the hemostatic sealing of soft tissue and bone. This acquisition, which gives MDT a 100% ownership stake, raises the company's net investment in Salient Surgical to $525.0 million so the effective price to revenue multiple is 5.25x. In the smaller of its two deals, MDT is acquiring the interest it does not already own in **PEAK Surgical**, a California-based company that has developed the *PlasmaBlade* tissue dissection device for use in radiofrequency surgeries. This acquisition brings MDT's net investment in PEAK Surgical to $120.0 million, implying an effective price to revenue multiple of 5.25x. The deal gives Medtronic a leader in the field of advanced energy surgical incision technology. PEAK Surgical's technology offers a competitive advantage over traditional systems that use two separate instruments to precisely cut tissue and to control bleeding.

Roche Holding (VX: ROG) announced that it is acquiring **mtm laboratories AG**, an *in vitro* diagnostics

Additional Transactions—Technology

Sector	Target	Acquirer	Date
BIOTECHNOLOGY	STEMTIDE	InoLife Technologies, inc.	7/14/2011
	License for cytomegalovirus vaccine	Astellas Pharma, Inc.	7/15/2011
	Melanoma vaccine license	John P. Hussman Foundation	7/21/2011
E-HEALTH	IntelliSource Healthcare Solutions	DST Systems, Inc.	7/5/2011
MEDICAL DEVICES	Radiopharmaceutical equipment business	Eckert & Ziegler	7/5/2011
	BiancaMed	Resmed, Inc.	7/6/2011
	TREK Diagnostic Systems	Thermo Fisher Scientific	7/18/2011
PHARMACEUTICALS	Rights to vernakalant	Merck & Co., Inc.	7/26/2011
	Six generic products	Watson Pharmaceuticals, Inc.	7/26/2011
	ANDA for Calcitrol	Rockwell Medical Technologies, Inc.	7/26/2011

Transaction Updates—Technology

Sector	Target	Acquirer	Announced	Update
MEDICAL DEVICES	**Robinson MedSurg, LLC** Denver, Colorado	**Bacterin International Holdings, Inc.** Belgrade, Montana	3/18/2011	7/18/2011

Recent Developments: Bacterin International's $2.0 million purchase of Robinson MedSurg's assets closed on July 18, 2011.

firm, for up to €190.0 million ($265.0 million). Based in Heidelberg, Germany, mtm is focused on the early detection and diagnosis of cervical cancer, the largest early detection market in oncology. Under terms of the deal, Roche will make an upfront payment of €130.0 million and up to €60.0 million in performance-related milestone payments. This acquisition is being carried out by Roche subsidiary **Ventana Medical Systems**, a personalized medicine company acquired in 2008 for $3.4 billion. This deal gives the buyer access to mtm's proprietary test solutions, which are focused on the p16 biomarker, a gene involved in tumor suppression in the cell. Ultimately, under the personalized medicine model, early detection and diagnosis will be paired with treatment options.

San Diego's **CareFusion** (NYSE: CFN) purchased a German company of its own, buying **Rowa GmbH** for $150.0 million in cash. Based in Kelberg, Rowa manufactures robotic drug storage and retrieval systems. With operations in Germany, Italy, the Netherlands, Denmark and Sweden, the company claims more that 3,500 installations in 30 countries. CFN plans to combine Rowa's automated pharmaceutical storage and retrieval systems with its own *Pyxis* line of dispensing and storage systems. Our readers may remember that Pyxis was originally acquired by **Cardinal Health** (NYSE: CAH) in 1996 for $870.0 million and was then included among the clinical and medical product assets that were spun off as CareFusion in 2009. The current acquisition of Rowa thus brings CFN back to its business roots.

Japan's **Olympus Corp.** (T: 7733) announced acquiring **Spirus Medical** for up to $60.0 million. Based in Stoughton, Massachusetts, Spirus deploys its proprietary endoluminal platform technology to manufacture endoscope insertion devices for use in gastrointestinal procedures. Under terms of the deal, Olympus will pay $40.0 million upfront and make up to $20.0 million in earnout provisions. This deal expands the therapeutic and commercial possibilities for the buyer's own endoscope systems. It was carried out by Olympus subsidiary **Gyrus ACMI**, based in Southborough, Massachusetts.

OraSure Technologies (NASDAQ: OSUR) recently announced plans to buy **DNA Genotek** for $53.0 million in cash. Headquartered in Bethlehem, Pennsylvania, OraSure develops, manufactures, markets and sells a variety of oral fluid diagnostic products and specimen collection devices. Based north of the border in Ottawa, DNA Genotek also makes and sells oral fluid sample collection, stabilization and preparation products, primarily for molecular diagnostic applications; in 2010, the company generated revenue of $14.0 million. This acquisition, valued at 3.8x revenue, strengthens the buyer's position in the oral fluid diagnostics market by giving it a portfolio of complementary products to offer its customers. The transaction also provides a vehicle for the target's products to enter the U.S. diagnostics market, which is valued at $4.0 billion. **Deutsche Bank Securities** and **Moelis & Co.** provided financial advice on this deal to OraSure Technologies and DNA Genotek, respectively. ❏

Health Care Technology

Biotechnology

July's largest biotech deal is turning out to be its most controversial, as well. Just after mid-month, **AMAG Pharmaceuticals** (NASDAQ: AMAG) and **Allos Therapeutics** (NASDAQ: ALTH) announced a deal to merge. AMAG develops and commercializes therapeutic iron compounds to treat iron deficiency anemia while ALTH, a biopharma, develops and commercializes anti-cancer therapeutics. Under terms of the deal, each share of ALTH stock is to be exchanged for 0.1282 shares of AMAG common stock. Based on stock prices then current, the deal is worth about $258.2 million. It is valued at 6.6x ALTH's 12-month trailing revenue. On closing, current AMAG and ALTH shareholders will own 61% and 39%, respectively, of the combined company. While the combination may achieve cost savings synergies of between $55.0 million and $60.0 million, a good thing in itself, what other purpose will it serve? The deal brings together two companies whose drugs, in unrelated therapeutic areas, have had less than stellar receptions in the market. To forestall this merger, hedge fund **MSMB Capital** has made an unsolicited bid of $18.00 per share for AMAG, for a total of $381.0 million. Given that the stock had reached $19.00 in June and July, the offer doesn't seem very generous. And on some accounts, MSMB has been on a tear in the past months, targeting first **Neoprobe** then **SeraCare Life Sciences** perhaps with the idea of moving their stock prices, so it may well have its own agenda.

In a deal worth up to $165.0 million, **Vical, Inc.** (NASDAQ: VICL) is granting a license to **Astellas Pharma** (T: 4503) for developing and commercializing *TransVax*, the company's therapeutic vaccine, in mid-stage clinical development, designed to control cytomegalovirus reactivation in transplant patients. The deal enlarges Astellas's cancer treatment pipeline.

Pfizer (NYSE: PFE) is tying up some loose ends by acquiring the 89% it does not already own in **Icagen** (NASDAQ: ICGN), a biopharma focused on small molecule drugs that modulate ion channel targets. This deal is the culmination of one made in 2007 to develop and commercialize pain and epilepsy drugs. PFE is paying $6.00 in cash, for a total of $56.0 million. The price being paid implies a purchase price of $63.0 million for a 100% interest in the company and a 6.2x price to revenue multiple.

ICGN has suffered some setbacks in the development of its epilepsy drug, which may account in part for the fact that PFE's offer represents a 23% discount to the stock's prior-day trading price. However, ICGN stock had soared 220% in June on rumors of a possible merger. As a part of PFE, ICGN may be better able to surmount its setbacks.

In a deal worth $50.0 million, **BioSante Pharmaceuticals** (NASDAQ: BPAX) is granting a license for its melanoma vaccine to **The John P. Hussman Foundation**. The licensee is a not-for-profit foundation in Ellicott City, Maryland that provides support through medical research, education and other means. Under terms of the deal, the Foundation will pay $100,000 upfront; up to $39.0 million in milestone payments; and $11.0 million in clinical development funding. This funding will allow BPAX to move the vaccine candidate, which has orphan drug status, into phase 1 clinical trials in the next few months. If these trials have a successful outcome, the Hussman Foundation will fund a phase 2 trial.

E-Health

Health benefits company **Aetna, Inc.** (NYSE: AET) is acquiring Omaha-based **PayFlex Holdings** for $202.0 million. PayFlex provides web-based benefit administration services and solutions for plan sponsors who offer HSAs, HRAs and similar plans. The company has approximately one million accounts and approximately 3,300 direct employee customers. Management believes that this acquisition fits well with AET's core business, which has a focus on consumer-directed product offerings.

MedQuist Holdings (NASDAQ: MEDH) is paying $130.0 million in cash and stock to buy Pittsburgh-based **M*Modal**, a provider of speech recognition technology and cloud-based software solutions for medical transcription. The company's solutions enable the conversion of speech into structured clinical information. Under terms of the deal, MEDH will pay $77.2 million in cash and issue 4.1 million shares of its common stock. This acquisition, valued at 5.4x revenue, enhances the buyer's medical transcription capabilities with M*Modal's proprietary *Speech Understanding* technology.

Some venture capitalists hope to capitalize on accountable care organizations, if somehwat obliquely. **Kleiner Perkins Caufield & Byers**, along with other investors, are pouring $61.0 million into **Essence Group Holdings, Corp.**, a St. Louis company that helps physicians build networks. Proceeds will help the company's technology arm, **Lumeris**, market software that enables collaboration among physicians, hospitals and insurers in ACOs. Essence is, in essence, a pilot health plan focused on lowering health care costs. The company believes the market for related products and services is $80.0 billion and that as much as $1.0 trillion in revenue could pass through ACOs that use them within 10 years. Kleiner Perkins et al. are no strangers to technology; they provided early financing for **Genetech**, **Amazon.com** and **AOL**.

As we were going to press, we learned that **The Blackstone Group** is going to take **Emdeon** private for $19.00 per share in cash, or $3.0 billion. Details will appear in our September issue.

Pharmaceuticals

In a deal worth as much as $475.0 million, **Bristol-Myers Squibb** (NYSE: BMY) is acquiring **Amira Pharmaceuticals**, a small molecule pharma company based in San Diego and focused on drugs to treat inflammatory and fibrotic diseases. Under terms of the deal, BMY will pay $325.0 million upfront, and make up to $150.0 million in additional milestone payments. This acquisition enlarges BMY's product pipeline with the addition of Amira's fibrosis program, including *AM 152*, which has completed phase 1 trials and is now poised to enter phase 2a for the treatment of idiopathic pulmonary fibrosis and scleroderma. The very busy JP Morgan Securities provided Amira with financial advice on this deal.

Valeant Pharmaceuticals (NYSE: VRX) has had a very busy, very eventful July. It acquired the dermatology units of two companies. First, it paid $425.0 million for **Dermik**, **Sanofi's** (NYSE: SNY) dermatology unit which has a portfolio of therapeutic and esthetic dermatology brands. This deal, valued at 1.8x revenue, includes SNY's Laval, Quebec site across the river from Montreal. Second, it paid $345.0 million, or 2.3x revenue, to acquire the assets of **Ortho Dermalogics**, a unit of **Janssen Pharmaceuticals**, which is in turn a unit of Johnson & Johnson. The products include the prescription skin care brands *Retin-A Micro* (acne), *Ertaczo* (athlete's foot) and *Renova* (acne). Rumors also appeared in the press that Valeant had made an approach to **Meda AB** (STO: MEDAa), the Scandinavian specialty drug maker, worth more than $4.0 billion. And why not? VRX has been executing a series of smaller deals since it failed to snag **Cephalon** earlier for $5.7 billion. Eager investors have driven up Meda's stock price on the hopes that VRX still has an appetite for the big deal, but nothing concrete has yet emerged.

VRX was not the only buyer seeking to plump up its dermatology business this month. **Allergan** (NYSE: AGN) is acquiring **Vicept Therapeutics** for up to $275.0 million to beef up its pipeline of dermatology drug candidates. Founded in 2009 and based outside Philadelphia, Vicept is a venture-backed specialty pharma that is focused on developing topical therapies for the treatment of rosacea and related disorders. Its lead product, *V-101*, a cream to treat the redness associated with rosacea, has achieved positive results in phase 2 trials. Under terms of the deal, AGN is paying $75.0 million upfront and will make up to $200.0 million in development, regulatory and sales milestone payments. Vicept's financial backers include **Vivo Ventures**, **Fidelity Biosciences** and Sofinnova Ventures.

Shionogi & Co. (T: 4507) is paying up to $127.0 million to acquire nine marketed products from San Diego-based **Victory Pharma**. Consideration consists of $118.0 million upfront and up to $9.0 million in additional milestone payments. The Victory portfolio includes seven treatments for pain and two for infectious diseases. This transaction is being carried out by Shionogi's American subsidiary; the FDA-approved products will be marketed by Shionogi's existing sales force.

In The Offing. **GlaxoSmithKline** (NYSE: GSK), as is widely known, has bundled a portfolio of non-core products with revenue of nearly $820.0 million for auction. Prominent among the interested parties are three private equity firms, **Advent International**, **Cinven** and **Warburg Pincus**. Advent likely has the inside track on this since former GSK CEO Jean-Pierre Garnier is among its group of operating partners. Somewhat surprising is the absence of strategic buyers from this sale. However, it is not clear in this environment how attractive a portfolio of disparate OTC products will be to other generic pharma or consumer health care companies, many of whom target specific therapeutic areas. As one skeptic noted, "It's a tough portfolio and it's not clear it has any coherence other than being stuff that GSK doesn't want." Even though it won't be a bolt-on acquisition for a strategic buyer, there is a temptation to mold the portfolio into a cohesive unit that PEGs may find irresistible—at the right price, of course. Some bystanders have opined that the portfolio might command 3x to 4x revenue, but that's what a well-run branded pharma company gets these days. Perhaps 2x revenue is closer to the mark.

India's **Lupin** (BO: LUPN) is said to be considering the sale of its unit which markets medicines in India and accounts for about one-third of its annual sales. Some think the unit could fetch up to $1.0 billion; proceeds would most likely go to finance LUPN's investments in more profitable markets outside the country. ❑