

THE HEALTH CARE M&A REPORT

ABSTRACT

**SECOND QUARTER
2010**

A SUPPLEMENT TO THE HEALTH CARE M&A MONTHLY

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Senior Living Business
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ABSTRACT

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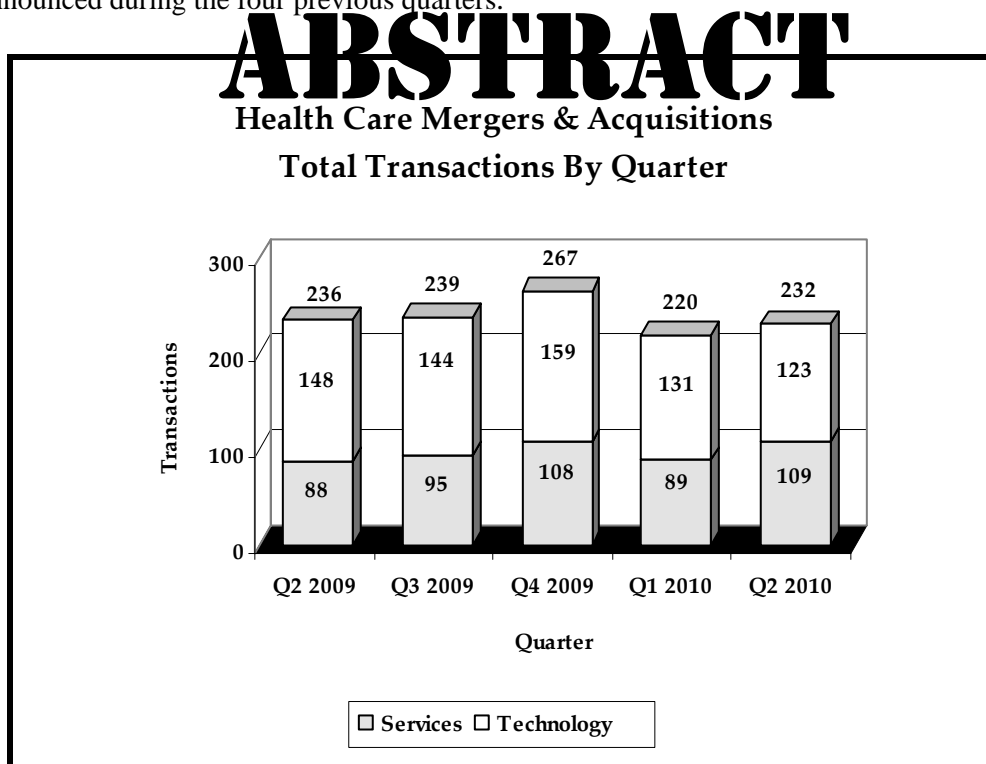
INTRODUCTION

This is the 68th issue of *The Health Care M&A Report*, which tracks the merger and acquisition market in the health care industry. General trends in the market are discussed in this Introduction, and supported by data from individual deals that appear in the body of the text. Each entry details a transaction, describing the target and acquirer. It also provides the price, terms, acquisition multiples and other financial information, where these are available. Finally, the commentary section offers additional analysis.

This issue reports on 232 separate transactions that were announced in the second quarter of 2010 and lists them alphabetically by target within 13 separate health care sectors.

- | | |
|--|---|
| <ul style="list-style-type: none"> ■ Behavioral Health Care ■ Biotechnology ■ E-Health ■ Home Health Care ■ Hospitals ■ Laboratories, MRI & Dialysis ■ Long-Term Care | <ul style="list-style-type: none"> ■ Managed Care ■ Medical Devices ■ Pharmaceuticals ■ Physician Medical Groups ■ Rehabilitation ■ Other |
|--|---|

For reasons of timeliness, each transaction is tracked by the date of the announcement rather than the date of consummation, or closing date. This generally coincides with a significant event, such as the signing of a letter of intent or the receipt of regulatory clearance. It is assumed that once a letter of intent is signed, for example, the parties to the deal consider it to be economically viable relative to the market conditions at the time of the signing. The chart below presents these 232 deals in relation to the number of deals that were announced during the four previous quarters.



Source: Irving Levin Associates, Inc.

The chart on the previous page divides the health care industry into two broad segments: the nine sectors we have traditionally covered that offer “services” and the four sectors we subsequently began covering that are focused on products and “technology.” These two segments also figure in the discussion below.

With 232 deals announced during Q2:10, M&A activity was up 5% from the previous quarter’s 220 transactions, but down 2% from the 236 deals in the year-ago quarter (Q2:09). The 123 deals in the health care technology segment represent 53% of the total transaction volume announced during Q2:10, with the 109 deals in the health care services segment making up the remaining 47%.

Sector	Q1:10		Q2:09		
	Q2:10 Deals*	Deals	% Change	Deals	% Change
<i>Services Segment:</i>					
Long-Term Care	26	17	53%	13	100%
Hospitals	19	7	171%	16	19%
Labs, MRI, Dialysis	15	8	88%	5	200%
Home Health Care	11	14	-21%	15	-27%
Physician Groups	9	12	-25%	10	-10%
Behavioral Health Care	4	0	NM	0	NM
Rehabilitation	4	2	100%	2	100%
Managed Care	3	3	0%	4	-25%
Other	<u>18</u>	<u>26</u>	<u>-31%</u>	<u>23</u>	<u>-22%</u>
Services Subtotal	109	89	22%	88	24%
<i>Technology Segment:</i>					
Medical Devices	44	40	10%	55	-12%
Pharmaceuticals	43	33	30%	34	24%
Biotechnology	21	29	-27%	41	-44%
e-Health	<u>11</u>	<u>22</u>	<u>-50%</u>	<u>19</u>	<u>-42%</u>
Technology Subtotal	123	131	-6%	148	-17%
Grand Total	232	220	5%	236	-2%

*Preliminary figures

ABSTRACT

The Health Care M&A Market—Deal Volume

The three most active sectors taken together account for nearly 50% of the total deal volume announced during the second quarter of 2010. In Q2:10, the three most active individual sectors were Medical Devices (44), Pharmaceuticals (43) and Long-Term Care (26). The three largest sectors of the previous quarter in terms of deal volume (Medical Devices, Pharmaceuticals and Biotechnology) accounted for 50% of that period’s total transaction volume.

A total of 189 companies were involved in the Q2:10 health care M&A market as buyers (Q1:10, 174). One-hundred-four publicly traded corporations announced a combined total of 143 deals; 68 privately held companies announced 72 deals; and 17 not-for-profit organizations announced one deal each. The most prolific acquirer was the big pharma company Sanofi-Aventis with seven deals. It was followed by Johnson & Johnson with four deals, and GlaxoSmithKline, Hanger Group, IPC The Hospitalist Company, RadNet and Valeant Pharmaceuticals with three deals each. For the remaining multiple acquirers, 18 publicly traded corporations and four private companies announced two deals each. On the seller’s side of the equation, the targets included 145 privately held companies or divisions thereof, 65 publicly traded corporations or divisions thereof and 22 not-for-profit organizations. Privately held Sunwest

Management, in the throes of bankruptcy reorganization, made a total of five divestments while publicly traded Becton, Dickson & Co. and Labopharm made two sales apiece.

	Q2:09	Q3:09	Q4:09	Q1:10	Q2:10
Services	\$5.3 billion	\$3.7 billion	\$3.5 billion	\$5.9 billion	\$9.3 billion
Technology	\$22.5 billion	\$36.0 billion	\$34.7 billion	\$19.7 billion	\$35.8 billion
All Sectors	\$27.8 billion	\$39.7 billion	\$38.2 billion	\$25.6 billion	\$45.1 billion

Dollars Spent On Health Care M&A

Based on purchase prices revealed to date, a total of \$45.1 billion was committed in Q2:10 to finance the quarter's 232 transactions. The median price paid per transaction during the second quarter of 2010 was \$43.0 million (Q1:10, \$27.8 million).

Acquirer Type (By Listing)	Q2:09		Q3:09		Q4:09		Q1:10		Q2:10	
	Deals	Dollars	Deals	Dollars	Deals	Dollars	Deals	Dollars	Deals	Dollars
Publicly Traded	61%	87%	53%	93%	61%	87%	53%	77%	62%	93%
Privately Held	32%	12%	34%	6%	32%	12%	34%	22%	31%	6%
Not-For-Profit	7%	1%	13%	1%	7%	1%	13%	<1%	7%	1%

Deals Announced and Dollars Spent By Acquirer Type

ABSTRACT

The table above classifies acquirers according to their size type: publicly traded corporations, privately held companies or not-for-profit organizations. For each type, it presents the percentage of deals and dollars that type captured in a given quarter. In Q2:10, for example, acquisitions made by publicly traded corporations were responsible for approximately 93% of all dollars spent in the health care M&A market, while those made by privately held companies were responsible for 6% and those made by not-for-profit organizations were responsible for just 1%. The table also shows that in terms of dollar volume, not-for-profit organizations hover around the 1% mark even though they may range between 7% and 13% of the total deal volume.

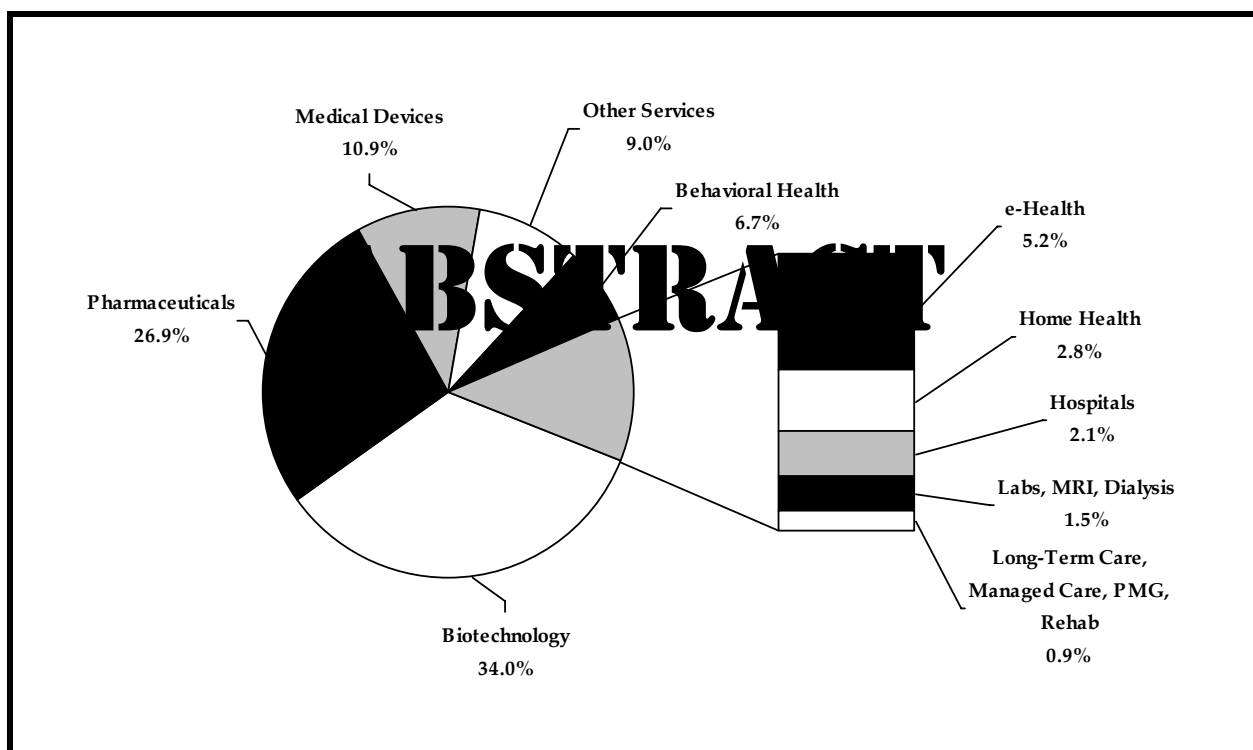
What the table above shows us is that publicly traded corporations habitually outstrip their privately held counterparts in the percentage of M&A dollars they capture. While access to the public equity markets accounts for some of the success the publicly traded groups enjoy versus their privately held counterparts, another factor may explain the increasing dominance enjoyed by publicly traded corporations. The increase in percentage of M&A dollars spent by publicly traded corporations prior to Q4:09 seems most likely correlated with the decrease in M&A dollars that were spent by such financial buyers as private equity groups and REITs. The Great Recession that began in August 2007, making credit scarcer and, where available, more costly, took a profound toll on deal-making by financial buyers, making the leveraged buyout more expensive and less profitable than it once was. Against this background, large publicly traded corporations, particularly big pharma companies, have been able to maintain or increase their level of M&A activity because many of them have the internal financial resources, namely cash flow, that allow them to bypass banks and other lenders. During Q4:09, financial buyers, including PEGs and REITs, staged a robust return to the health care M&A market. The deal and dollar levels have fallen off somewhat since then, however.

The table below indicates that financial buyers are now returning to the M&A market after posting nominal figures during early 2009.

Financial Buyers	Q2:09	Q3:09	Q4:09	Q1:10	Q2:10
Deals Announced	4	6	22	12	13
Percentage of Deal Volume	2%	2%	8%	6%	6%
Dollars Committed	\$267.5 million	\$1.5 billion	\$8.0 billion	\$3.5 billion	\$1.8 billion
Percentage of Dollars Spent	< 1%	4%	21%	14%	4%

The Impact Of Financial Buyers On The Health Care M&A Market

The chart below displays the percentage contribution of each sector to the total dollars spent during Q2:10. Biotechnology, Pharmaceuticals and Medical Devices captured the three highest amounts, posting \$15.7 billion, \$12.5 billion and \$5.2 billion, respectively.



Where The Health Care M&A Dollars Went In Q2:10

At the other end of the spectrum, four service sectors combined, Long-Term Care, Managed Care, Physician Medical Groups and Rehabilitation, accounted for a total of \$405.5 million, or approximately 0.9% of the second quarter’s total dollar volume.

The health care technology segment by itself attracted about \$35.8 billion, or approximately 79% of the total amount committed to finance health care M&A activity during Q2:10 (Q1:10, 77%; Q4:09, 91%; Q3:09, 91%); the services segment, still lagging, accounted for the remainder.

The second quarter of 2010 saw the announcement of 10 billion-dollar deals (Q1:10, 6), listed in the table below. Their combined value of \$27.8 billion accounts for 61% of the quarter’s total M&A dollars

(Q1:10, 45%). Eighty percent are in the technology sector, and all the acquirers but one (Thomas H. Lee Partners) are strategic buyers.

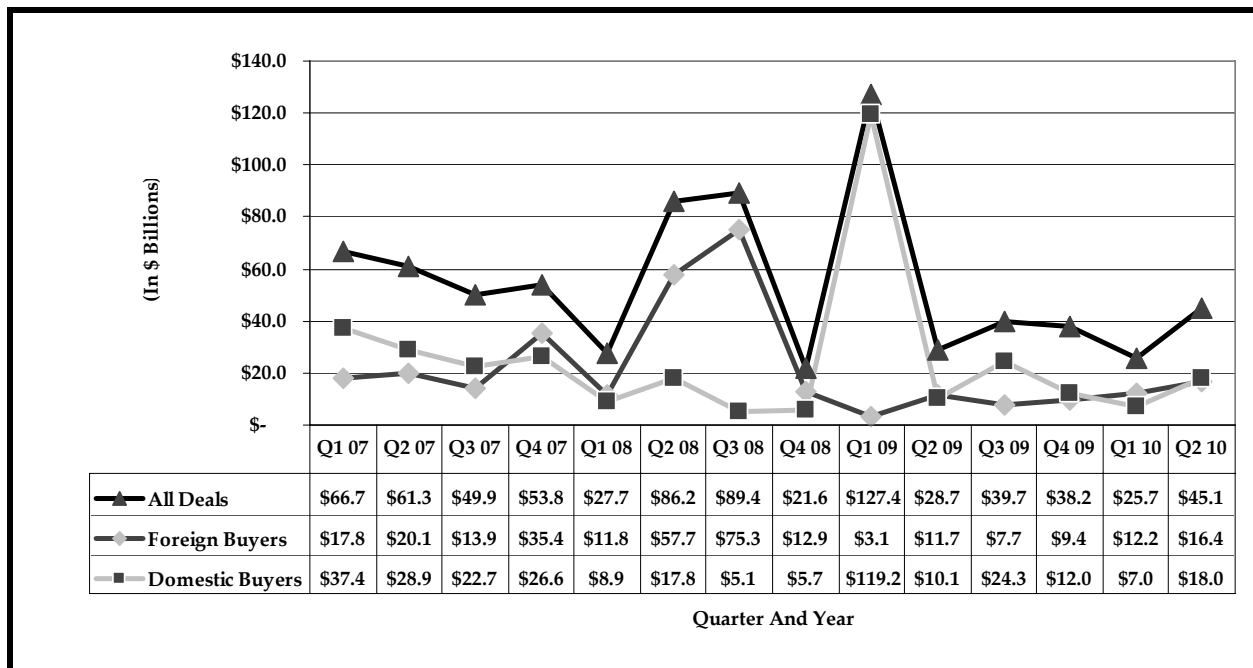
<u>Acquirer</u>	<u>Listing</u>	<u>Target</u>	<u>Listing</u>	<u>Price</u> <i>(In \$ billions)</i>	<u>Sector</u>
Grifols, SA	MC: GRLS	Talecris Biotherapeutics Holdings Corp.	NASDAQ: TLCR	\$4.0	Biotechnology
Astellas Pharma, Inc.	T: 4503	OSI Pharmaceuticals, Inc.	NASDAQ: OSIP	\$4.0	Biotechnology
Biovail Corporation	NYSE: BVF	Valeant Pharmaceuticals International	NYSE: VRX	\$3.9	Pharmaceuticals
Abbott Laboratories	NYSE: ABT	Piramal Healthcare Limited	BO: PIRA	\$3.7	Pharmaceuticals
Universal Health Services, Inc.	NYSE: UHS	Psychiatric Solutions, Inc.	NASDAQ: PSYS	\$3.1	Behavioral Health Care
Celgene Corporation	NASDAQ: CELG	Abraxis BioScience, Inc.	NASDAQ: ABII	\$2.9	Biotechnology
Covidien Plc	NYSE: COV	ev3, Inc.	NASDAQ: EVVV	\$2.6	Medical Devices
Allscripts-Misys Healthcare Solutions	NASDAQ: MDRX	Eclipsys Corp.	NASDAQ: ECLP	\$1.3	e-Health
Forest Laboratories, Inc.	NYSE: FRX	License for glucokinase activators	Private	\$1.2	Pharmaceuticals
Thomas H. Lee Partners, L.P.	Private	inVentiv Health	NASDAQ: VTIV	\$1.1	Other

Billion-Dollar Deals Announced In Q2:10

Both foreign and domestic buyers have been active in the health care M&A market. As the chart overleaf indicates, domestic buyers dominated the U.S. health care M&A market until Q4:07, when foreign buyers, buoyed by a relatively cheap dollar, began outspending American buyers. The chart gives three data points for each quarter. First is the total number of health care M&A dollars spent in that quarter on all transactions. The next two figures are derived from the top 20 deals of the quarter as measured in dollar value. Accordingly, the second data point is the number of dollars spent by all U.S. buyers among the top 20 deals. Similarly, the third data point is the number of dollars spent by all foreign buyers among the top 20 deals. (Since the top 20 deals in any given quarter generally account for four-fifths of all dollars spent, the inclusion of the remaining deals, all of lesser value, does not materially alter the overall pattern of results.)

The chart on the following page reveals that for the three quarters from Q1:07 through Q3:07, big U.S. domestic buyers outspent their foreign counterparts. With the onset of the Credit Crunch in mid-2007, that pattern reversed itself so that for the five quarters from Q4:07 through the end of Q4:08, foreign buyers had the upper hand. Part of the reason for the recent preponderance of foreign buyers is that the dollar has been historically low against other major currencies for the past three years—and a lower dollar makes acquisitions in America by foreign buyers cheaper and more attractive. The low dollar also tends to keep American buyers in the American market and away from relatively more expensive foreign opportunities.

However, since the beginning of 2009, domestic buyers appear in general to be outspending their foreign counterparts. During the second quarter of 2010, economic concerns about sovereign debt in Southern Europe, as well as a falling Euro, favored U.S. domestic buyers in the market. Going forward, the trend toward globalization will likely raise the levels of cross-border M&A in the health care technology sectors while attempts to enhance local and regional health care delivery networks in the U.S. will foster a strong domestic market.



Multi-Year Trend Of Foreign And Domestic Buyers In The Health Care M&A Market (Top 20 Deals)

Of Special Note

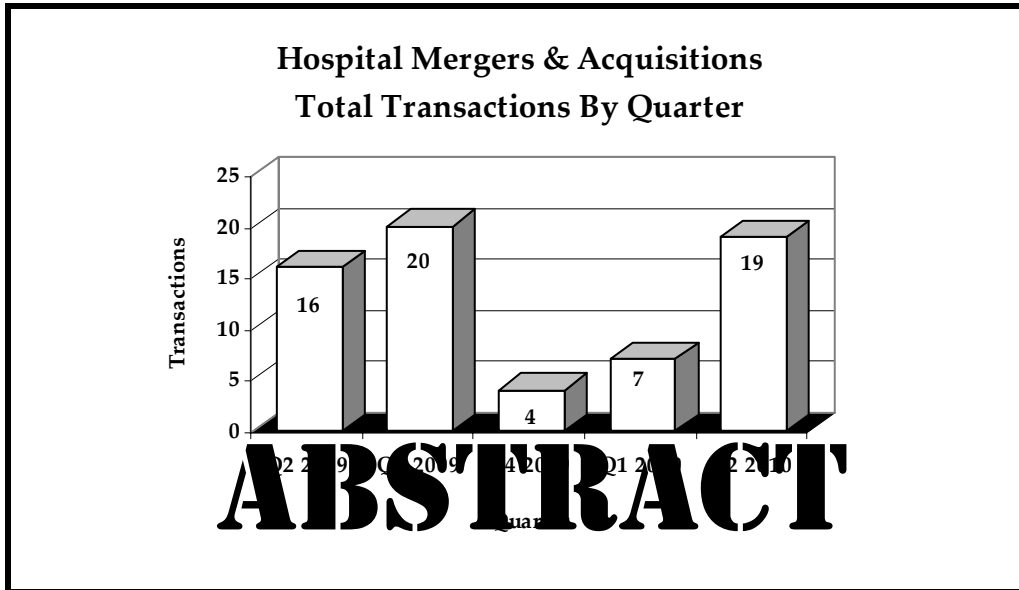
To keep our readers abreast of the rapid developments in the merger and acquisition market, Irving Levin Associates issues *The Health Care M&A Weekly* 50 times a year. This bulletin, which reaches your desk by e-mail, lists all of the health care M&A deals announced during the week along with prices and links. Further detail and analysis of these transactions are provided in our monthly newsletter, *The Health Care M&A Monthly*, which is intended to serve two purposes. First, it offers up-to-date information on the market by collecting all the deals that have been announced during the previous month. Second, the newsletter places those deals in context by providing commentary on the market itself. Each month, we discuss emerging trends in individual sectors of the health care industry, interpret the investment implications of select deals and report information about deals we have heard to be brewing, but which have yet to be formally announced.

After the end of each quarter, we issue this source book, *The Health Care M&A Report*, to follow up on these transactions with more comprehensive information on the quarter's deals. We utilize such sources as SEC filings, discussions with bankers and consultants involved in certain transactions, and interviews with company management to bring our readers reliable, value-added information on this important and rapidly developing market. The Irving Levin Online M&A Database, which includes 15 years' worth of M&A data, is updated weekly and is at your disposal 24 hours a day, seven days a week. So even after the publication of this source book, we make subsequent updates to the deals contained in it available to subscribers through our online database. We hope that you will find our services a valuable tool for your business.

Hospitals

Nineteen transactions were announced in the Hospital sector during Q2:10. These 19 represent 38% of the 50 deals announced during the past 12 months. The second quarter's deals also represent a 171% increase in deal volume over the seven transactions announced in the previous quarter, and a 19% increase over the 16 in the year-ago quarter, Q2:09.

The assets that were acquired through these 19 transactions include a combined total of 47 hospitals (Q1:10, 19); 4,486 acute care beds (Q1:10, 3,823); and combined net patient revenue of approximately \$2.9 billion (Q1:10, \$3.4 billion). Most of the deals involved general acute care hospitals; however, two deals involved a total of 24 long-term acute care hospitals.



Source: Irving Levin Associates, Inc.

Based on prices revealed so far, a total of \$868.2 million was committed to finance the 19 hospital deals in Q2:10. The second quarter figure represents 21% of the \$4.1 billion spent during the past 12 months to finance the acquisition of 115 hospitals with 13,950 acute care beds in a total of 50 deals.

Q2:09	Q3:09	Q4:09	Q1:10	Q2:10
\$161.5 million	\$420.7 million	\$657.4 million	\$2.2 billion	\$868.2 billion

Dollars Spent On Hospital M&A, By Quarter

Seventeen acquirers announced a combined total of 19 deals in Q2:10. Five publicly traded corporations announced a combined total of seven deals involving 34 hospitals with 954 beds. Community Health Systems and LifePoint Hospitals announced two deals apiece. Three privately held companies announced one deal each with a combined total of 4 hospitals and 1,085 beds. Finally, nine not-for-profits announced one deal apiece, representing a combined total of nine hospitals and 2,447 beds.

From the seller's side of the equation, three transactions in the first quarter targeted 25 hospitals with 451 beds owned by privately held companies while the other 16 deals targeted 22 acute care hospitals with 4,035 beds owned by not-for-profits.

In the largest Hospital deal of Q2:10, Select Medical Holdings is paying \$210.0 million, or 0.6x revenue, to acquire Regency Hospitals, a Waud Capital portfolio company that operates a network of 23 long-term

acute care hospitals in nine states. Once this acquisition closes, Select Medical will operate a combined total of 112 long-term acute care hospitals in 29 states, making it one of the largest operators of LTACs in the country.

In the second largest deal, LifePoint Hospitals submitted a stalking horse bid of \$156.0 million for Sumner Regional Health Systems, a four-hospital system based in Gallatin, Tennessee with a total of 265 acute care beds serving 11 counties of the state. The bankruptcy court handling Sumner’s reorganization approved this deal on June 24, 2010. In addition to the purchase price, LifePoint has agreed to invest over \$60.0 million in capital spending over the next 10 years.

In the third largest deal of the quarter, RegionalCare Hospital Partners, a hospital management company formed in mid-2009 and backed by Warburg Pincus, offered \$150.0 million to acquire Coffee Health Group, which operates Eliza Coffee Memorial Hospital in Florence, Alabama and Shoals Hospital in nearby Muscle Shoals. RegionalCare is also committing approximately \$250.0 million for a 300-bed replacement hospital in Florence. Included among the assets in this deal are two medical office buildings and an outpatient billing operation.

The first of these three transactions rank among the top five deals for the past 12 months, listed in the table below.

<u>Five Largest Hospital Deals Of The Past 12 Months</u>	<u>Value</u>	<u>Quarter</u>
1. Vanguard Health acquired Detroit Medical Center	\$1.3 billion	Q1:10
2. Cerberus Capital acquired Caritas Christi	\$830.0 million	Q1:10
3. RehabCare Group acquired Triumph Healthcare	\$570.0 million	Q4:09
4. Select Medical acquired Regency Hospital Company	\$210.0 million	Q2:10
5. Catholic Healthcare Partners acquired Jewish Hospital	\$110.0 million	Q3:09

ABSTRACT

SECOND QUARTER 2010 HOSPITAL TRANSACTIONS

TARGET	CITY	STATE	ACQUIRER	CITY	STATE	DATE	PRICE
Bert Fish Medical Center	New Smyrna Beach	Florida	Adventist Health Systems, Inc.	Winter Park	Florida	6/4/2010	\$51,500,000
Bluefield Regional Medical Center	Bluefield	West Virginia	Community Health Systems, Inc.	Franklin	Tennessee	4/2/2010	
Clark Regional Medical Center	Winchester	Kentucky	LifePoint Hospitals, Inc.	Brentwood	Tennessee	4/1/2010	\$60,000,000
Clinton Memorial Hospital	Wilmington	Ohio	RegionalCare Hospital Partners	Brentwood	Tennessee	6/17/2010	\$82,000,000
Coffee Health Group	Florence	Alabama	RegionalCare Hospital Partners	Brentwood	Tennessee	5/24/2010	\$150,000,000
Community Hospital of Long Beach	Long Beach	California	Long Beach Memorial Hospital	Long Beach	California	6/10/2010	
Knapp Medical Center	Weslaco	Texas	Valley Baptist Health System	Hartlingen	Texas	4/6/2010	
Lenox Hill Hospital	New York	New York	North Shore-Long Island Jewish Health System	Great Neck	New York	5/19/2010	\$25,700,000
Marion Regional Healthcare System	Mullins	South Carolina	Community Health Systems, Inc.	Franklin	Tennessee	4/5/2010	
Mercy Hospital	Miami	Florida	HCA, Inc.	Nashville	Tennessee	6/24/2010	
Morristown-Hamblen Healthcare System	Morristown	Tennessee	Covenant Health	Knoxville	Tennessee	5/10/2010	\$100,000,000
Muskogee Long-Term Acute Care Hospital	Muskogee	Oklahoma	Grubb & Ellis Healthcare REIT	Tustin	California	6/1/2010	\$11,000,000
Regency Hospital Company, LLC	Alpharetta	Georgia	Select Medical Holdings Corporation	Mechanicsburg	Pennsylvania	6/21/2010	\$210,000,000
Rockford Health System	Rockford	Illinois	OSF Healthcare Systems	Peoria	Illinois	5/13/2010	
Silbey Memorial Hospital	Washington	DC	Johns Hopkins Health System Corp.	Baltimore	Maryland	5/27/2010	
St. Joseph's Hospital	Atlanta	Georgia	Piedmont Healthcare	Atlanta	Georgia	4/9/2010	
Sumner Regional Health Systems	Gallatin	Tennessee	LifePoint Hospitals, Inc.	Brentwood	Tennessee	5/3/2010	\$156,000,000
Three Shands hospitals	Jacksonville	Florida	Health Management Associates, Inc.	Naples	Florida	5/27/2010	\$22,000,000
Wilson N. Jones Medical Center	Sherman	Texas	Texas Health Resources, Inc.	Arlington	Texas	4/15/2010	

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Take a look at the sample pages following. For each sector, you get a summary of the quarter's transactions, plus all the available details: the target, the acquirer, price, net income, important ratios, company descriptions and contact information, and the motivation for the deal. It's everything you need to know to stay on top of who's buying whom in health care.

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TARGET: *12 assisted living and memory care facilities*

LISTING: Private

LOCATION: Texas

UNITS: 677

REVENUE: \$30,300,000 (annualized)

NET INCOME: \$13,500,000 (EBITDAR)

Signature Assisted Living is selling its interest in 12 leases with Health Care REIT (NYSE: HCN). The communities have 532 assisted living and 145 memory care units. Occupancy is close to 91%.

ANNOUNCEMENT DATE: June 28, 2010

PRICE: \$25,000,000

TERMS: \$25 million purchase. Additionally, 50% of Signatures outstanding working capital loans, not to exceed \$750,000.

The annual payment due to Health Care REIT is expected to be \$8.9 million, so EBITDAR is expected to exceed the annual cash payment by \$4.6 million. This deal gives CSU a total of 29 communities operated in Texas.

ACQUIRER: *Capital Senior Living Corporation*

LISTING: NYSE: CSU

CEO: Lawrence A. Cohen
14160 Dallas Parkway, Suite
300

Dallas, Texas 75254

WEB SITE: www.capitalsenior.com

PHONE: 972-770-5600

FAX: 972-770-5666

Capital Senior Living operates senior living communities. It currently operates 66 communities in 23 states with a capacity for 10,000 residents. On a trailing 12-month basis, CSU generated revenue of \$192 million, EBITDA of \$30 million and net income of \$2.6 million.

PRICE PER UNIT: \$36,928

PRICE/REVENUE: 0.83

PRICE/INCOME: 1.85

TARGET: *Blair Ridge*

LISTING: Nonprofit

LOCATION: Peru, Indiana

UNITS: 54 (beds)

REVENUE: \$1,360,000

NET INCOME: \$320,000 (EBITDA)

Ridgeline Management Company is selling Blair Ridge, a 54-unit assisted living facility with 48 assisted living and six independent living units. Built in 2000, it was 100% occupied at the time of sale.

ANNOUNCEMENT DATE: June 1, 2010

PRICE: \$4,350,000

TERMS: Not disclosed

ACQUIRER: *Trilogy Health Services*

LISTING: Private

CEO: Randall Bufford
1650 Lyndon Farm Court
Louisville, Kentucky 40223

WEB SITE: www.trilogyhs.com

PHONE: 502-412-5847

FAX: 502-412-0407

Trilogy Health Services operates over 60 senior living communities in Illinois, Indiana, Kentucky, Michigan and Ohio.

PRICE PER UNIT: \$80,556

PRICE/REVENUE: 3.20

PRICE/INCOME: 13.59

The target facility was built by a local hospital in 2000 for \$7.0 million, then sold to Ridgeline in 2007 for \$3.4 million when occupancy was 72% and cash flow minimal. It has 48 *catered living* units in the main building, effectively unlicensed assisted living *lite*, and six independent living units in three duplex units. The buyer plans to build a skilled nursing unit behind the main building to increase the range of senior care services available and to license the catered living units for higher levels of care (and higher rates). Senior Living Investment Brokerage handled the sale.

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