



Healthcare Focus

A PERIODIC JOURNAL HIGHLIGHTING
TRANSACTIONS, DEVELOPMENTS, AND METRICS

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Continued Strength in 1Q 2007

Total healthcare M&A activity accelerated sharply in 2006, driven by landmark transactions such as HCA's \$33 billion go-private transaction. A clear emerging trend in transaction activity is the increasing participation of private equity groups (PEGs) as compared to strategic buyers. Much of this shift is driven by the increasing attractiveness of the provider segment; in 2006, PEGs sponsored approximately 30% of the total provider-focused deal volume, compared to approximately 10% in 2003. We believe that this trend will continue in 2007, driven by vast amounts of uninvested private capital and attractive trends in the provider segment, particularly facilities.

As widely expected, Triad Hospitals, a national publicly traded owner-operator of 54 acute care hospitals and 13 ambulatory surgery centers, announced its intent to be acquired by Community Health Systems. The \$6.8 billion transaction comes on the heels of the \$33 billion go-private transaction last year involving HCA, the largest for-profit hospital operator. These transactions, as well as several other recent large transactions, including the \$1.6 billion sale of Genesis HealthCare (long-term care) and the \$1.7 billion go-private of United Surgical Partners (ambulatory surgery centers) are a testament to the attractiveness of the long-term fundamentals of the healthcare services sector. The unabated availability of capital combined with robust sector fundamentals leads us to believe that it will continue to be a seller's market through 2007.

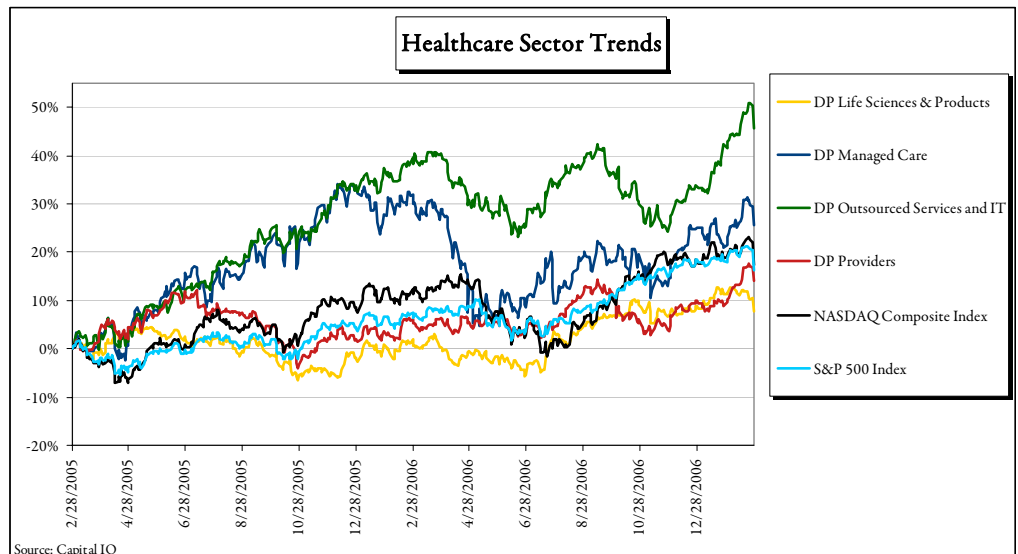
Notable news on the legal and regulatory front related to an ongoing attack on tax exemption includes the recent revocation of property tax exemption of two Illinois hospitals, ostensibly on grounds of deficient charity care levels, by the Illinois Department of Revenue (IDR). In late 2006, the IDR revoked the property tax exemption of another hospital as well. These unprecedented developments at the state level follow a similar line of thinking at the federal level regarding charity care—a new House bill all but mandates that tax-exempt hospitals provide a minimum level of charity care in order to retain their tax-exempt status.

In this edition, we spotlight the senior living sector. Investment into the sector continues unabated, fueled by an abundance of capital, favorable demographic trends, some stabilization of the reimbursement environment and the availability of high-quality assets. Both strategic and financial players appear determined to consolidate large markets through transaction activity as well as *de novo* development. We also see the beginnings of convergence of skilled nursing and assisted and independent living, with an increasing number of operators focusing on planned campuses offering the full spectrum of co-located senior living options. Further, operators are integrating full scale home health and hospice businesses into their offerings, both through greenfield development and acquisition.

SECTOR PERFORMANCE

Dresner Partners Indices	Aggregate Sector Metrics	
	Median EV / LTM EBITDA	Median EV / LTM Revenue
Life Sciences and Products	11.8x	2.7x
Managed Care	7.9x	0.8x
Outsourced Services and Healthcare IT	12.6x	1.3x
Healthcare Providers	8.7x	1.2x

Source: Capital IQ



HEALTHCARE INDUSTRY DEVELOPMENTS

Selected Recent Transactions

On March 26, 2007, **HealthSouth Corp.** agreed to sell its surgery division, a multi-state network of 139 outpatient surgery centers and three surgical hospitals, to private investment partnership **TPG** for \$945 million.

On March 19, 2007, **Oaktree Capital Management / MTS Health Investors** acquired a 49% interest in Alliance Imaging for \$153.1 million (**1.8x revenue; 5.2x EBITDA**).

On February 5, 2007, a consortium of private equity investors consisting of **CCMP Capital Investors** and **Goldman Sachs Capital Partners**, entered into a going-private transaction with **Triad Hospitals**, a national owner-operator of 54 hospitals and 13 ambulatory surgery centers, for **\$5.9 billion (1.1x revenues; 8.1x EBITDA)**.

On January 29, 2007, **Select Medical Corporation** entered into an agreement to acquire **HealthSouth Corporation's Outpatient Rehabilitation Division**, a network of approximately 600 facilities in 35 states, for **\$245 million**.

On January 16, 2007, a consortium of private equity investors consisting of **Formation Capital** and **JER Partners**, entered into a going-private transaction with **Genesis HealthCare**, the nation's largest long-term care provider with over 200 skilled nursing and assisted living facilities in 13 states, for **\$1.6 billion (0.9x revenues; 10.6x EBITDA)**.

On January 8, 2007, **Welsh Carson Anderson & Stowe** entered into an agreement to acquire **United Surgical Partners**, an owner-operator of ambulatory surgery centers and specialty hospitals in the United States and United Kingdom, for **\$1.7 billion (3.2x revenues; 8.9x EBITDA)**.

On December 22, 2006, **Fortress Investment Group** acquired the North American assets (299 communities) of **Holiday Retirement Corp.**

On December 21, 2006, **Psychiatric Solutions** entered into an agreement to acquire **Horizon Health Corporation**, an owner-operator and contract manager of behavioral health facilities, for **\$405 million (1.5x revenues; 13.0x EBITDA)**.

On December 20, 2006, a consortium of private equity investors consisting of **AIG Altaris Health Partners**, **Dynamic Healthcare Solutions**, **Salix Ventures**, and **Three Arch Partners**, entered into an agreement to acquire **US Healthworks**, the nation's leading provider of occupational medicine, for **\$185 million**.

Source: FactSet, company press releases and reports, various national news sources, and Dresner Partner estimates.

SECTOR SPOTLIGHT: LONG-TERM CARE

OVERVIEW

- ◆ The long-term care industry is a major beneficiary of macro demographic trends, specifically an aging population, longer life expectancy, and changing lifestyle patterns of seniors and their families.
- ◆ The skilled nursing market has shown spectacular dynamics in the recent past. After plunging in 2003 to a 10-year low, the average price per bed soared in 2004 to a 10-year high and has maintained that level. The robustness of the market in the face of reimbursement uncertainty suggests long-term sustainability of the sector's fundamentals.
- ◆ The assisted and independent living markets, have experienced robust activity in the past five years, with 2005 being a pinnacle year in terms of per-unit transaction values. The drivers behind this performance are attractively priced capital, the lowest capitalization rates in decades, diversified and well-capitalized buyers, and an increasing supply of high-quality assets.

On December 1, 2006, **Brookdale Senior Living** entered into an agreement to acquire 30 senior living properties from **Nationwide Health Properties**, a Real Estate Investment Trust focusing on senior living

On November 28, 2006, **Angelo Gordon, LP** entered into an agreement to acquire **National Home Health Care Corporation**, a provider of home health services in Northeastern United States, for **\$81 million (0.6x revenues; 8.7x EBITDA)**.

Regulatory Update

Illinois Hospitals' Property Tax Exemption Revoked. During the week of February 26, 2007, the **Illinois Department of Revenue (IDR)** revoked the property tax exemption of two Illinois hospitals, 65-bed **Richland Memorial Hospital** and 474-bed **Carle Foundation Hospital**, ostensibly on grounds of deficient charity care levels. In late 2006, the IDR revoked the property tax exemption of 128-bed **Provena Covenant Medical Center**. These precedence-setting actions are being scrutinized nationally.

CMS Prohibitions on Block Lease Arrangements. On January 26, 2007, the **Centers for Medicare and Medicaid Services (CMS)** issued a transmittal amending the **Medicare Program Integrity Manual** guidance that could have a significant impact on independent diagnostic testing facilities (IDTFs) and those physician practices, hospitals and other providers doing business with them. The change incorporates prohibitions that may put at risk **block-leasing and other shared imaging arrangements** that IDTFs routinely enter into with physician practices and other providers, and compounds the negative effects of the **Deficit Reduction Act**, which went into effect on January 1, 2007.

Illinois Attorney General Lawsuit Against Diagnostic Imaging Centers. On January 17, 2007 the **Illinois Attorney General** joined a lawsuit against several Chicago-area radiology centers over their payment of **illegal kickbacks** to referring doctors. The complaint alleges that the radiology centers entered into illegal **"lease"** agreements with doctors under which the doctors pay a reduced rate for MRI and CT scans but charge the patient's insurance a higher rate, and then keep the difference.

New Internal Revenue Code Section for Tax-Exempt Providers; Charity Care. Introduced on December 8, 2007, H.R. 6420, the "Tax Exempt Hospitals Responsibility Act of 2006", would create a **new Internal Revenue Code Section 501(r)**, which would apply to **"specified medical care providers"**, defined by **new Section 4968C(1)**. The bill would mandate that specified medical care providers, as a condition of their tax-exempt status, **provide a certain level of charity care**. This legislation would have a significant impact on the financial challenges faced by many not-for-profit providers.

OUTLOOK

- ◆ Both strategic and financial acquirers are active. Recent significant transactions include the \$1.6 billion sale of Genesis HealthCare (financial buyer), the \$350 million sale of Harborside Healthcare (strategic buyer), the \$650 million sale of Aston Gardens (strategic buyer), and the \$620 million sale of Tandem Healthcare (financial buyer).
- ◆ Structurally, the long-term care industry has begun to show a convergence of skilled nursing and assisted and independent living, with operators providing a continuum of care options at the same campus to address the evolving needs of seniors and their families.
- ◆ While reimbursement pressure remains severe in skilled nursing, there has been a recent semblance of stabilization, especially where cost benefits can be realized by providing long-term and related services outside the acute care setting.
- ◆ We believe that the market will remain active through 2007 for sellers of long-term care assets.

MARKET METRICS

Long-Term Care Cont'd

Skilled Nursing

Ticker	Company	Stock Price*	Market Cap*	Enterprise Value (EV)*	EV/LTM EBITDA	EV/LTM Revenue	EBITDA Margin	Revenue	EBITDA
AVCA	Advocate Inc.	\$13.17	\$77.3	\$107.8	4.4x	0.5x	11.2	\$216.8	\$24.2
EXE	Extendicare, Inc.	69.69	2,363.3	204.2	6.8x	0.7x	10.8	276.7	30.0
GHCI	Genesis Healthcare Corp.	62.64	1,238.8	1,644.3	9.8x	0.9x	9.2	1,810.4	167.2
KND	Kindred Healthcare Inc.	32.78	1,310.9	1,192.4	5.0x	0.3x	5.6	4,266.7	239.4
HCR	Manor Care Inc.	55.11	4,016.2	4,992.2	10.4x	1.4x	13.3	3,613.2	481.8
NHC	National Healthcare Corp.	52.51	657.8	549.0	11.9x	1.1x	8.5	501.7	46.3

*Pricing and LTM Data as of 03/23/07

* On January 16, 2007, Genesis Healthcare agreed to be acquired by Formation Capital and JER Partners for \$1.7 billion in a go-private transaction.

Mean	8.0x	0.8x	9.8	1,780.9	164.8
Median	8.3x	0.8x	10.0	1,156.0	106.7

Assisted and Independent Living

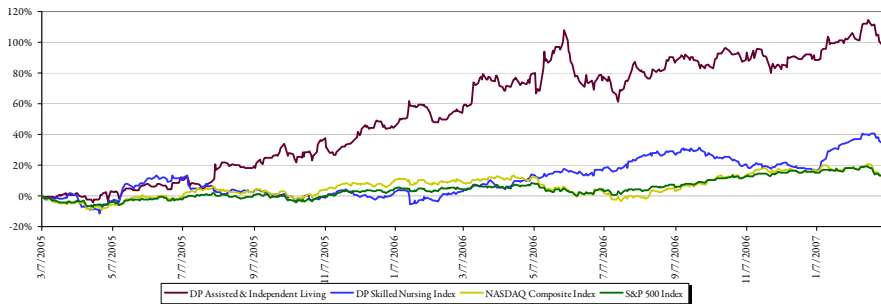
Ticker	Company	Stock Price*	Market Cap*	Enterprise Value (EV)*	EV/LTM EBITDA	EV/LTM Revenue	EBITDA Margin	Revenue	EBITDA
BKD	Brookdale Senior Living Inc.	\$46.60	\$4,720.9	\$6,530.8	NA	NA	14.0	\$1,309.9	\$183.1
FVE	Five Star Quality Care Inc.	10.41	329.8	404.4	15.9x	0.5x	3.1	827.3	25.4
SUNH	Sun Healthcare Group Inc.	12.95	555.4	597.6	11.1x	0.6x	5.1	1,045.6	53.8
SRZ	Sunrise Senior Living Inc.	39.90	2,009.0	1,985.5	10.2x	1.1x	10.7	1,819.5	194.7

*Pricing and LTM Data as of 03/23/07

Mean	12.4x	0.7x	8.2	1,250.6	114.2
Median	11.1x	0.6x	7.9	1,177.8	118.5

Source: Capital IQ

Long-Term Care Performance

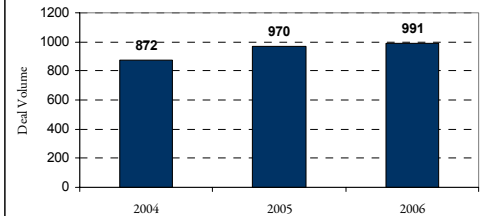


Source: Capital IQ

Healthcare M&A Activity

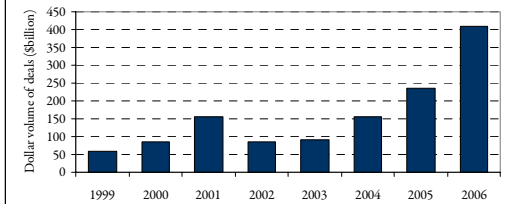
- Healthcare M&A activity accelerated sharply in 2006 due to the availability of vast amounts of private capital and increasingly attractive multiples.
- We believe the certain healthcare sectors, particularly facilities, will be the main beneficiary of M&A activity in 2007 and 2008.

Healthcare M&A Volume



Source: Irving Levin

Total LBO Volume



Source: FactSet

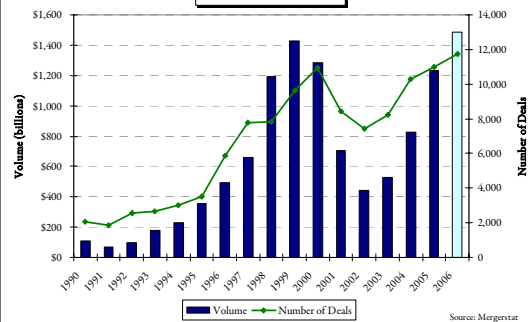
Capital Markets

Key Rates

	CURRENT	1 MONTH PRIOR	3 MONTH PRIOR	6 MONTH PRIOR	1 YEAR PRIOR
Federal Reserve Target Rate	5.25	5.25	5.25	5.25	4.50
3-Month LIBOR	5.35	5.36	5.35	5.39	4.86
United States Prime Rate	8.25	8.25	8.25	8.25	7.50
5-Year AAA Banking & Finance	5.10	5.35	5.08	5.30	5.20
10-Year AAA Banking & Finance	5.30	5.57	5.33	5.62	5.33
A-Rated Tax Exempt 30-Year	4.80	4.91	4.57	4.95	4.83

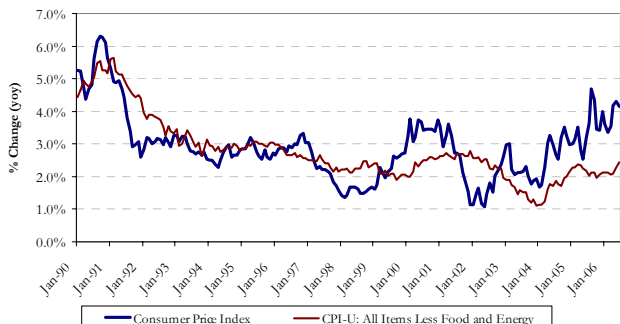
Source: Capital IQ

Mergers and Acquisitions



Source: Mergerstat

Consumer Price Index for All Urban Consumers: All Items



Source: U.S. Department of Labor - Bureau of Labor Statistics

U.S. Treasuries

Bills

	MATURITY DATE	DISCOUNT/YIELD	DISCOUNT/YIELD CHANGE
3-Month	5/31/2007	5.00/5.14	0.02 / -.006
6-Month	8/30/2007	4.92 / 5.13	0.01 / -.021

Notes/Bonds

	COUPON	MATURITY DATE	CURRENT PRICE/YIELD	PRICE/YIELD CHANGE
2-Year	4.750	2/28/2009	100-06 / 4.65	0-06+ / -.105
3-Year	4.750	2/15/2010	100-16 3/4 / 4.56	0-09+ / -.104
5-Year	4.625	2/29/2012	100-16+ / 4.51	0-14+ / -.101
10-Year	4.625	2/15/2017	100-21 / 4.54	0-21 1/2 / -.085
30-Year	4.750	2/15/2037	101-18 3/4 / 4.65	1-07 3/4 / -.077

Source: Capital IQ

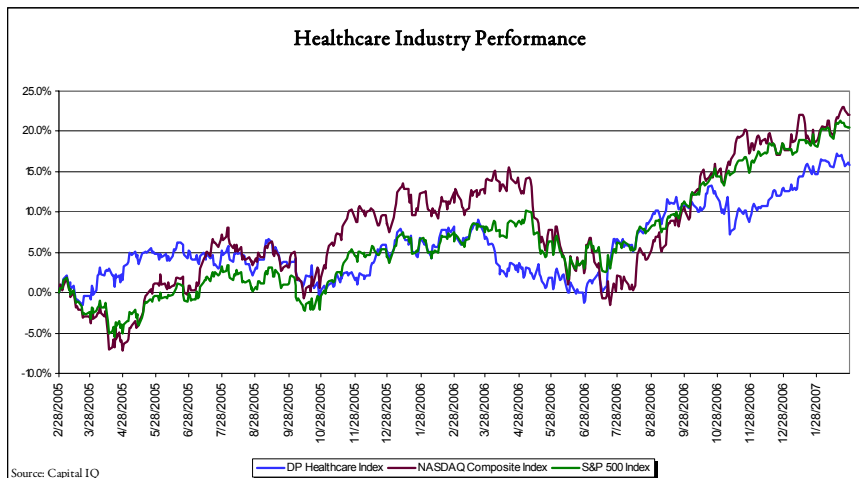
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HEALTHCARE GROUP

Healthcare Sector Summary

Health Care Trends

- A slowdown in the economy, beginning with a shallow decline in late 2006, demonstrates the defensive nature of healthcare.
- While pharmaceuticals have traditionally been considered the most defensive sector, facility-based healthcare services appear to be gaining favor.



Dresner Partners' Healthcare Group has assisted many companies, institutions, and other healthcare industry participants around the country in understanding the implications of the increasingly fluid and uncertain regulatory, legal and economic environment in healthcare, and has formulated and executed expert strategies to deal with them. We provide financial and tactical advice that enables healthcare providers, business services and healthcare IT players, and healthcare product companies make informed decisions about their options and understand the value of their strategic assets. We then assist in executing the alternatives an organization decides to pursue.

Our experience spans the full spectrum of healthcare services, ranging from acute care to alternate site services such as home health agencies, ambulatory surgery centers, dialysis providers, diagnostic laboratories, outpatient rehab, behavioral health, and senior living. We also are active in outsourced services and healthcare IT, managed care, and certain medtech sectors. Our role as financial advisor focuses on providing independent and objective advice and seasoned execution, which can be consultative or project driven. We actively track the key industry trends and apply our understanding of these trends as the basis of our advisory services.

Please contact one of our Healthcare Group leaders if you would like to discuss how Dresner Partners' can help you reach your financial goals.

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