



Signal Hill

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Healthcare Services: Q2 2012 M&A Review

The decision by the United States Supreme Court to uphold the Affordable Care Act in its entirety was undoubtedly the most significant event within Healthcare Services in Q2 2012. Despite this monumental event, however, the number of HC Services transactions remained virtually flat, due in part to significant activity within Acute Care, Alternate Site and Senior Living. A large portion of the disclosed transaction value of the quarter's closed deals can be attributed to SXC Health Solutions' \$4.4B acquisition of Catalyst Health Solutions. Q2 2012 yielded a slight improvement in announced deal activity from Q1 – an increase of approximately one percent. However, year-over-year activity for the same quarter decreased approximately 25 percent. There were several notable announced deals during Q2 2012, including Universal Health Services' \$517M acquisition of Ascend Health Corp and Genesis Healthcare's acquisition of Sun Healthcare Group for approximately \$275M.

Figure 1: Quarterly Healthcare Services M&A Deal Analysis, Q2 2011 – Q2 2012

| <i>Source: Signal Hill</i> | Q2 2011 | Q3 2011 | Q4 2011 | Q1 2012 | Q2 2012 |
|----------------------------------|-----------|------------|-----------|-----------|-----------|
| Number of Deals | 148 | 161 | 136 | 108 | 109 |
| % change from prior quarter | - | 8.8% | (15.5%) | (20.6%) | 0.9% |
| Total Enterprise Value (\$M) | \$7,211.2 | \$38,122.7 | \$5,365.0 | \$1,927.0 | \$7,647.0 |
| % change from prior quarter | - | 428.7% | (85.9%) | (64.1%) | 296.8% |
| Median Announced Deal Size (\$M) | \$22.4 | \$20.4 | \$43.0 | \$7.9 | \$25.2 |
| % change from prior quarter | - | (8.7%) | 110.8% | (81.7%) | 220.4% |
| Median EV/TTM EBITDA Multiple | 7.7x | 11.0x | 8.0x | 5.4x | 6.5x |
| % change from prior quarter | - | 41.8% | (27.2%) | (46.4%) | 16.1% |

Note: Transactions include announced deals

Figure 2: Healthcare Services Public Company Valuation Metrics Q2 2012 – All data below accounts for the Median

| <i>Source: Signal Hill</i> | Enterprise Value as a Multiple of: | | | | | | | | | | |
|---------------------------------------|------------------------------------|------------------|---------------------|-------------|-------------|-------------|-------------|-------------|-------------|---------------|--------------|
| | % Of 52-Wk High | Equity Value | Enterprise Value | Revenue | | | EBITDA | | | EBITDA Margin | |
| <i>Healthcare Services</i> | | (\$ in mm) | (\$ in mm) | LTM | 2012E | 2013E | LTM | 2012E | 2013E | LTM | 2012E |
| Acute Care | 19.9% | 2,168.4 | 7,068.4 | 0.9x | 0.9x | 0.9x | 6.6x | 6.3x | 5.9x | 14.3% | 14.6% |
| Alternate Site | 21.0% | 525.1 | 1,173.0 | 1.6x | 1.6x | 1.5x | 5.9x | 5.4x | 5.1x | 25.2% | 24.5% |
| Behavioral | 20.1% | 1,238.1 | 1,036.9 | 0.7x | 0.7x | 1.0x | 6.6x | 6.1x | 6.1x | 8.3% | 11.8% |
| Home Health | 30.9% | 210.9 | 349.4 | 0.5x | 0.5x | 0.5x | 5.1x | 5.4x | 5.3x | 10.2% | 9.6% |
| Laboratories | 5.8% | 2,017.3 | 1,679.9 | 2.0x | 1.9x | 1.9x | 8.7x | 8.2x | 7.8x | 21.4% | 21.3% |
| Managed Care | 24.2% | 12,636.6 | 14,289.6 | 0.4x | 0.4x | 0.3x | 6.5x | 6.0x | 5.5x | 6.5% | 6.2% |
| Senior Care / Rehab | 28.2% | 561.7 | 747.4 | 1.0x | 0.9x | 0.9x | 6.8x | 6.2x | 5.9x | 14.1% | 14.7% |
| All Select Healthcare Services | 21.0% | \$1,238.1 | \$1,173.1 | 0.9x | 0.9x | 0.9x | 6.5x | 6.1x | 5.9x | 13.9% | 14.6% |

Note: Managed Care public comparables accounts for unregulated cash



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Figure 3: Healthcare Services 1-Year Relative Stock Price Performance, Q2 2012

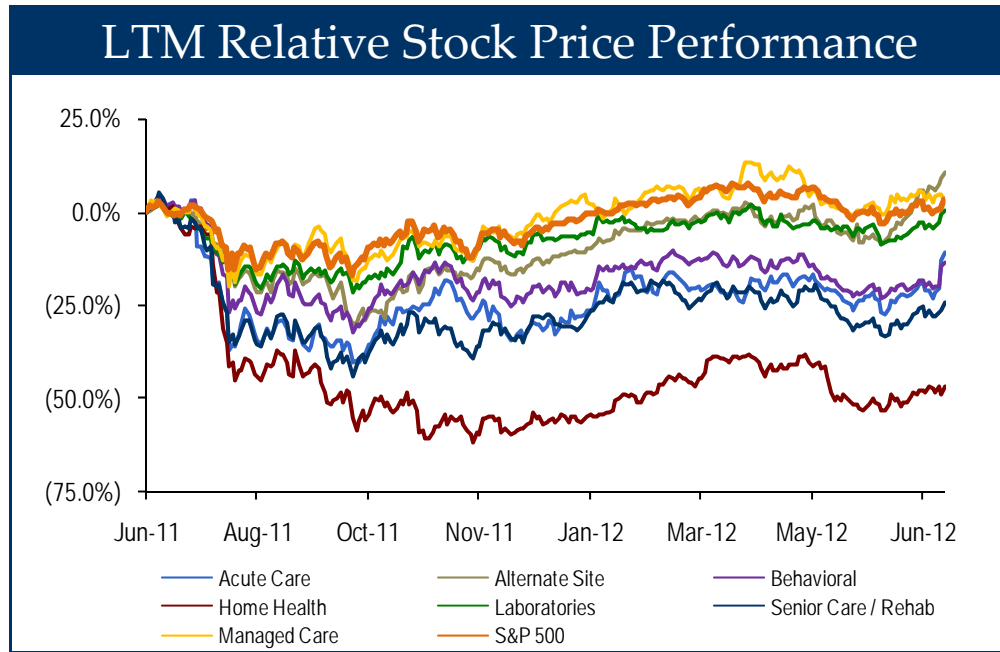


Figure 4: Largest Healthcare Services Revenue Multiples Q2 2012

| Target | Buyer | Revenue Multiple | EBITDA Multiple |
|-------------------------------------|----------------------------|------------------|-----------------|
| Extend Health, Inc. | Towers Watson & Co. | 6.8x | 28.7x |
| Seven Clinic Physical Therapy Group | US Physical Therapy, Inc. | 1.8x | n/a |
| Catalyst Health Solutions, Inc. | SXC Health Solutions, Inc. | 0.8x | 19.8x |
| SRI Surgical Express, Inc. | Synergy Health plc | 0.3x | 5.0x |

Note: Selected closed transactions



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Selected Healthcare Services Transactions Q2 2012

| | |
|---|---|
| <p>Catalyst Health Solutions, Inc. acquired by SXC Health Solutions, Inc.</p> <p>EV: \$4,400.0M Revenue Multiple: 0.8x</p> | <p>SXC Health Solutions, a provider of pharmacy benefit management (PBM) services and healthcare IT solutions for the healthcare benefits management industry, has acquired Catalyst Health Solutions. Catalyst, also a benefit manager, caters to smaller clients such as unions and state governments. The merger is expected to create a formidable competitor to Express Scripts and CVS Caremark, offering a la carte services to clients.</p> |
| <p>Extend Health, Inc. acquired by Towers Watson & Co.</p> <p>EV: \$435.0M Revenue Multiple: 6.8x</p> | <p>Extend Health, operator of the largest private Medicare exchange in the United States, was acquired by Towers Watson, a leading global professional services company. The acquisition is expected to enable Towers Watson to provide employers with healthcare solutions that combine retiree medical transition consulting with the choice and cost advantages of individual Medicare plans.</p> |
| <p>MTS Medication Technologies, Inc. acquired by Omnicell, Inc.</p> | <p>MTS Medication Technologies, a worldwide leader in innovative medication adherence packaging systems, was acquired by Omnicell, a leading provider of medication and supply management solutions and analytics software for healthcare systems. Omnicell's acquisition will establish a market leading company that integrates medication management across the full continuum of care, taking into account more than just individual episodes of treatment.</p> |
| <p>SRI Surgical Express, Inc. acquired by Synergy Health plc</p> <p>EV: \$36.9M Revenue Multiple: 0.3x</p> | <p>Synergy Health, a global leader in outsourced sterilization services to the medical device market, hospitals and healthcare providers, acquired SRI Surgical Express, a provider of central processing and supply chain management services to hospitals and surgery centers across the United States. The terms of the deal stipulate that SRI will become a wholly-owned subsidiary of Synergy Health.</p> |

Note: Selected closed transactions