



# Healthcare Market Pulse

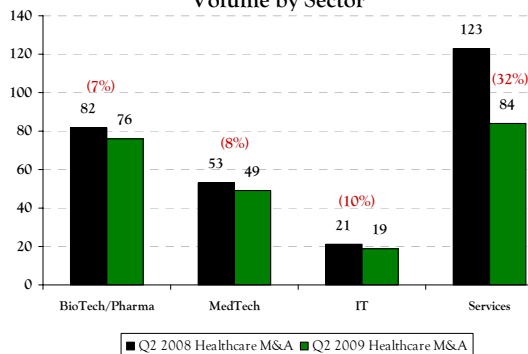
## Q2 2009 Healthcare Market Overview

- Healthcare M&A activity bucked the trend in Q2 2009 with M&A volumes increasing by 12% over the prior quarter. This compares favorably to the 40% decrease in overall M&A activity during the quarter.
- Activity was sector specific, with the biotech/pharmaceutical sector accounting for 70% of Q2 deals by dollar volume. While Blockbuster transactions such as Pfizer's proposed acquisition of Wyeth and Merck & Co.'s pending acquisition of Schering-Plough Corp. helped pump up Q1 M&A values in the sector, absent these two transactions, Q2 healthcare M&A values actually rose by 52% over the adjusted Q1 number.
- By contrast, M&A activity in the healthcare services sector remained weak, primarily due to uncertainty over the reimbursement impact of the various healthcare reform packages working their way through Congress, as well as a scarcity of debt capital. Healthcare providers accounted for less than 10% of Q2 deal volume, and the overall services sector made up only 37% of healthcare M&A transactions. This compares to a historic average of approximately 55%.
- On a year-over-year basis, the picture is not quite as bright with H1 2009 healthcare activity down by 11% overall according to one source and as much as 35% according to another source. Although down less than other sectors of the economy (see chart, right), healthcare M&A activity remains soft.
- Despite a weak first half, good deals that do not rely on the credit markets continue to get done. In particular, strategic buyers remain active, albeit at a deliberate pace and with a very tight focus on core strategic areas. Covidien's \$470 million acquisition of Vnus Medical Technologies (4.6x revenue) is a great example of a strategic deal that provides Covidien with a growth platform in the strategic vascular sector.
- Looking forward, Q2 data suggests that we have at least hit bottom. How fast M&A activity picks up remains hard to predict. For the balance of the year, we expect activity to continue to be sector specific and driven largely by strategic buyers.

\*Unless otherwise indicated, data represents closed M&A transactions

Sources: CapitalIQ and Irving Levin & Associates, Inc.

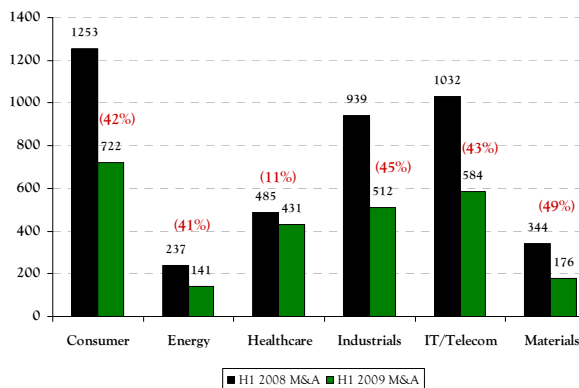
Q2 2009 U.S. Healthcare M&A Deal Volume by Sector



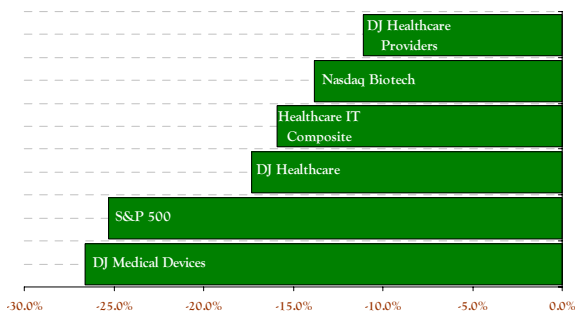
Q2 2009 U.S. Healthcare M&A Dollar Amounts by Sector (Announced)

Healthcare Sector	Dollar Amount	Percent of Q2 '09
Biotech/Pharma	\$19,568,000,000	70%
MedTech	\$1,750,600,000	6%
IT	\$1,348,100,000	5%
Services	\$5,239,100,000	19%
Total	\$27,905,800,000	100%

H1 2008 vs. H1 2009 U.S. M&A by Industry



LTM Indexed Stock Performance



## Q2 Focus

August 3, 2009

Health & Wellness

## Market Commentary

"Pockets of strength include med tech and sectors expected to benefit from expanded federal spending (health & wellness, healthcare IT, telemedicine, for example). Should some of the remaining storm clouds on the horizon clear (finalizing healthcare reform, end of recession, modest improvement in debt markets), we would not be surprised by a more broad based uptick in healthcare M&A activity heading into 2010."

Ken Higgins  
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## Market Overview & Key Drivers

### Health & Wellness

According to CMS, 2009 healthcare spending will total \$2.5 trillion - spending has risen approximately 2.4 percentage points faster than GDP since 1970, increasing from 7.2% to 17.6% of GDP. Like overall healthcare costs, insurance premiums have grown at rates well in excess of overall inflation. Between 1999 and 2008, cumulative growth in health insurance premiums was 119% compared to inflation of 29% and wage growth of 34%.

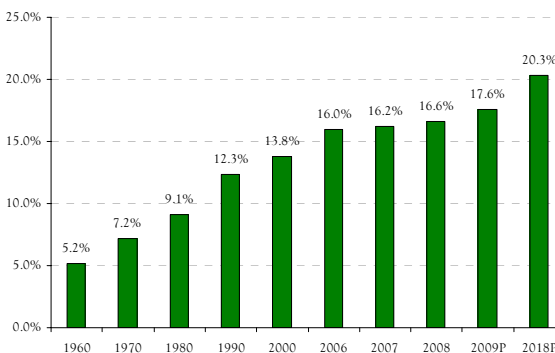
Where are healthcare dollars spent? The chart on the right breaks down healthcare spending, with hospital care, physician/clinical services and prescription drugs accounting for the vast majority of the healthcare dollar. Clearly, if the U.S. is to control healthcare spending, it needs to keep people healthier and reduce demand for these services.

Healthcare spending is concentrated. About 10% of people account for a whopping 63% of total healthcare spending. At the other end of the spectrum, the lowest cost 50% of the population accounted for only 3% of spending. The question is how do we prevent people from becoming part of the costly 10%?

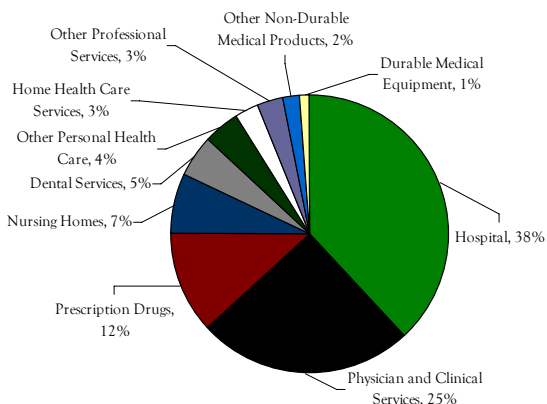
Over 1/3 of all illness, making up an estimated 70% of healthcare costs, are the result of avoidable behaviors and consumer lifestyle choices (Source: McGinnis, *Health Affairs*).

Lack of exercise, poor diet and smoking drive the vast majority of high cost conditions such as obesity, diabetes, hypertension and cardiovascular disease. Obesity alone is a key cost driver (see chart below depicting the U.S. obesity epidemic).

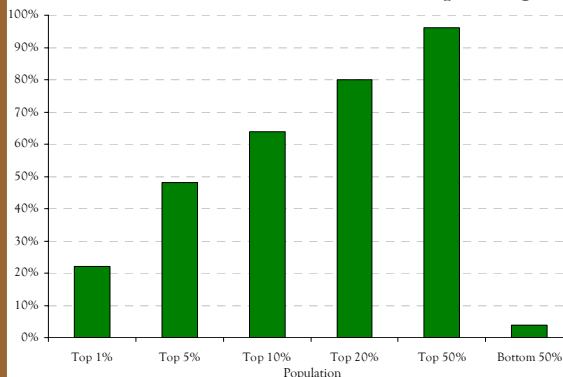
### National Health Spending as a Share of GDP 1960-2018P



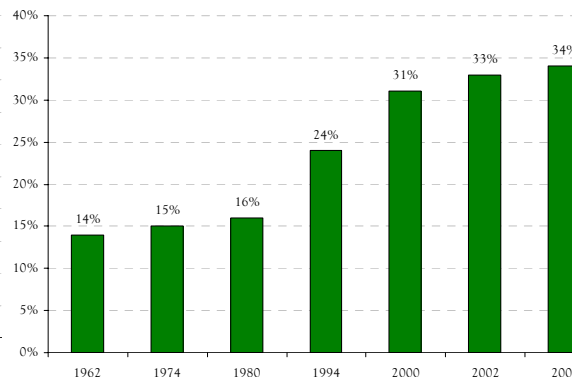
### U.S. Healthcare Spending by Type of Service



### Concentration of U.S. Healthcare Spending



### Percentage of Adults 20-74 that Are Obese



Sources: Agency for Healthcare Research and Quality, Centers for Medicare and Medicaid Services and the CDC



## Q2 Focus

August 3, 2009

### Health & Wellness

Healthcare spending is projected to be 17.6% of GDP by year end.

U.S. is projected to spend over \$2.5 trillion on health care in 2009, or \$8,160 per U.S. resident.

Nearly 2/3 of national health spending is for hospital and physician and clinical services.

About 10% of people account for 63% of healthcare spending.

Medical spending averages \$1,400 more a year for an obese person than someone of normal weight.

Overall obesity-related spending is \$147 billion, double what it was a decade ago. - Journal of Health Affairs

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# Healthcare Market Pulse



## Market Overview & Key Drivers

### Health & Wellness

The link between healthcare costs and consumer behavior is not new. Over time, the healthcare system attempted to address these high-cost patients first via managed care, and then through disease management (DM) solutions. DM programs were initially targeted to treat patients with chronic diseases such as diabetes, cardiovascular or pulmonary conditions - particularly high acuity patients with multiple co-morbidities. DM solutions initially addressed the top 1-5% of the cost curve, and gradually expanded to lower acuity patients.

Disease management programs were largely effective for those consumers enrolled in the programs. While generating positive results, DM programs have two principal flaws: (1) they work well for the minority of the population that already have chronic disease, but have not necessarily for lower acuity patients or those at risk of developing chronic disease; and (2) DM programs have struggled to enroll, engage and maintain engagement with a significant percentage of targeted patients.

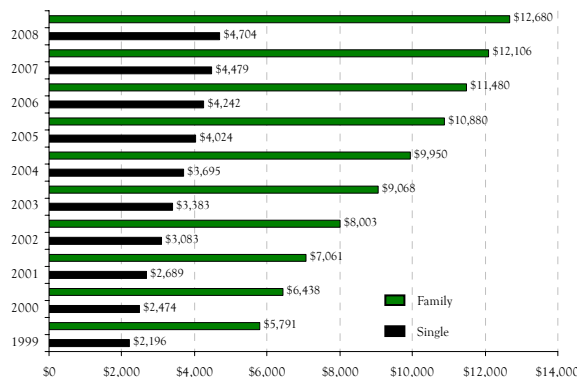
The goal of health and wellness (H&W) programs is to address a broad swath of the population with efficient, low-cost interventions - by emphasizing behavior change and healthy lifestyle choices, the programs seek to prevent individuals from progressing up the cost/acuity curve. These programs seek to engage consumers early, ideally before they are sick and help them adopt and maintain healthier behaviors.

H&W programs tend to target a common set of behaviors and conditions such as weight management, tobacco cessation, stress management, exercise and fitness, and nutrition, as well as provide support for managing diabetes, asthma, hypertension and cardiovascular risk factors.

Effective H&W programs typically have four common elements: (1) assessing a consumer's health status (biometric screening, health risk assessments); (2) developing and supporting a tailored action plan (nutritional, exercise and other steps to achieve healthier behaviors); (3) incentivizing and supporting healthier behaviors (use of telephonic health coaches, on-line tools and monetary incentives to reward healthy behavior); and (4) measuring / tracking progress for both the consumer and the relevant population (personal health record, comprehensive IT systems that measure and report results, strong data analytics, on-line tools for consumers).

As the average annual premiums for single and family coverage have shot up, an increasing emphasis on behavior change vs. treatment of disease as the key to getting healthcare costs under control is fueling rapid growth in the health and wellness market. Like the early days of disease management, demand for H&W solutions has been led by large employers, who tend to take a longer term and more comprehensive view of health status than the typical health plan.

Average Annual Premiums for Single and Family Coverage



Sources: Kaiser/HRET Survey and Watson and Wyatt

## Q2 Focus

August 3, 2009

### Health & Wellness

Washington, D.C. is starting to catch on - Congress took initial steps with \$1 billion in stimulus funding for health and wellness initiatives.

The Healthy Workforce Act, sponsored by Sen. Tom Harkin, D-Iowa, embraces the private sector's use of incentive programs, providing annual tax credits for employees participating in wellness initiatives.

It seems likely that the final healthcare reform bill will have a significant wellness and prevention component.

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## Q2 Focus

August 3, 2009

Health & Wellness

### Market Overview & Key Drivers

Health & Wellness

With H&W programs, employers are seeking solutions that can touch all of their employees, not just the minority with chronic disease. Successful programs have achieved positive return-on-investment (ROI) in the first year, with ROI expanding over time through improved health status/cost avoidance, improved productivity and reduced absenteeism.

Many employers are adopting H&W solutions that utilize a range of financial incentives to reward healthy behavior. The chart below shows a range of commonly used incentives.

The results so far from these incentive-driven (dare we say “market-based”) H&W programs look very encouraging. For example, in 2005, grocer Safeway implemented a health plan that rewards a variety of healthy behaviors through reductions in a participating employee’s health insurance premiums. By focusing on just four factors (tobacco usage, healthy weight, blood pressure and cholesterol levels) Safeway took its healthcare cost growth rate from 10% per year to zero, and kept it there over a 4-year period. This compares to the 38% increase experienced by employers generally.

The H&W market is a dynamic, emerging market.

Product offerings range from point solutions to comprehensive programs, and are constantly evolving as employers experiment with different alternatives.

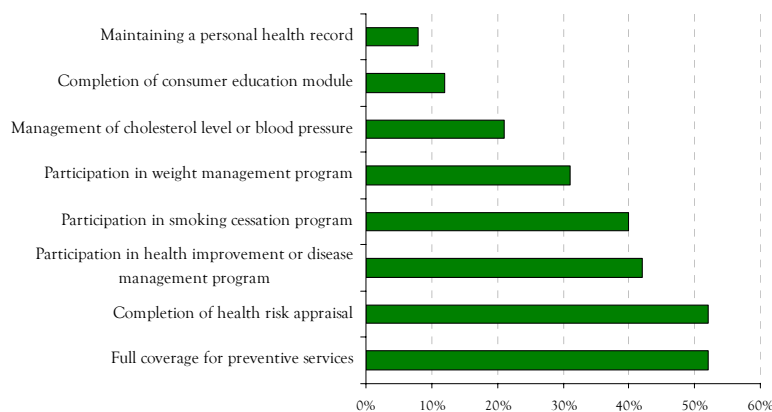
A few companies have achieved critical mass - namely American Specialty Health, Health Fitness, Healthways, and Inverness Medical Innovations - but no single company dominates the market. Other significant participants include Focused Health, Health Media (Johnson & Johnson), Redbrick Health, SHPS, Stay Well Health Management, Walgreens (Take Care / Whole Health Management), and WebMD, as well as a variety of health plans and EAP / behavioral health players such as APS Healthcare, ComPsych, OptumHealth Care Solutions (United HealthGroup) and Value Options.

A key to achieving market leadership, in our view, will be to deliver a comprehensive, integrated, multi-channel solution (on site, telephonic coaching, online resources) - while preserving customers’ ability to configure the offering to meet their specific needs. Not all companies will be able to develop a comprehensive offering on their own, providing significant opportunities for industry consolidation.

Over 100 companies provide some form of health & wellness solution.

We expect robust M&A activity as the overall H&W market continues to develop.

Employer Use of Financial Incentives to Reward Healthy Behavior



Sources: Kaiser/HRET Survey and Watson and Wyatt

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## Selected M&A Activity 2005-Q1 2009 – Health & Wellness/Health Management

### Health & Wellness Spotlight Transaction



San Diego-based American Specialty Health, Incorporated (ASH) is a leading personal health improvement organization, serving over 16 million members nationwide. The Company provides a broad range of wellness & prevention, fitness and specialty managed care products and services to individuals through their health plans and employer groups.

The Company's wellness & prevention division, a sub-set of ASH's overall health and wellness business, is experiencing enormous growth with millions of eligible members enrolled since its inception in 2002. Consistently recognized for its innovation, entrepreneurship, and contributions to the health care industry, ASH is positioned as a leader in the fast growing health and wellness market.

GH&F was engaged by the Company in Q1 2009 to assist in raising the capital required to repurchase the minority equity interest held by private equity firm, TA Associates. The extremely weak economic environment left significant uncertainty in the availability and pricing of outside capital. ASH proved that a strongly performing company in an attractive growth market could still obtain favorable market pricing, even in a tough market. After a very competitive process in which numerous groups expressed interest, ASH was able to complete the recapitalization with a combination of senior debt provided by Bank of the West and ASH cash reserves.



### Q2 Focus

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### Health & Wellness

23 Medical device transactions were announced in June.

Minnesota's ev3 is paying up to \$150 million to buy Menlo-based Chestnut Medical Technologies.

October 27, 2008 - As an initial step in the creation of a health and wellness business platform, Johnson & Johnson announced it had acquired HealthMedia, Inc.

Date Effective	Target	Description	Acquiror	Enterprise Value	Enterprise Value/	
				Value	Revenues	EBITDA
6/17/2009	HLTH Corporation	Pvds. Info Patient Svcs./Mngmt.	WebMD Health Corp.	\$1,406	3.6x	NM
10/27/2008	HealthMedia	Disease/Wellness Management	Johnson & Johnson Co.			
6/17/2008	MEDdecision, Inc.	Disease/Wellness Management	Health Care Service Corporation	\$114	2.5x	
4/24/2008	I-trax Inc.	Employer-based Health Clinics	Walgreen Co.	\$266	1.9x	NM
1/27/2008	Matria Healthcare	Disease/Wellness Management	Inverness Medical Innovations Inc.	\$1,123	3.2x	14.7x
7/9/2007	ValueOptions	Behavioral Healthcare Provider	Crestview Partners	\$223	0.4x	
6/18/2007	Healia, Inc.	Healthcare Wellness Search Engine	Meredith Corp.			
6/5/2007	APS Healthcare Inc.	Behavioral Healthcare Pvdrs./Svcs.	GTGR Golder Rauner, LLC			
3/6/2007	WellCorp	Nationwide Health Mngmt. Prgms.	Nationwide Insurance			
12/13/2006	Vielife Limited	Health and Wellness Solutions	Cigna Corp.			
11/27/2006	Leade Health Inc.	Personal Wellness/Disease Prevention	Ceridian Corporation			
11/2/2006	Subimo LLC	Web-based Healthcare Support	WebMD Health Corp.	\$60		
10/11/2006	AXIA Health Management, LLC	Wellness Prevention Svcs. Prgms.	Healthways Inc.	\$450	6.5x	NM
5/31/2006	Focused Health Solutions, Inc.	Behavioral Healthcare Pvdrs./Svcs.	Linden LLC			
3/7/2006	ComPsych Corporation	Disease/Wellness Management Svcs.	Summit Partners			
2/9/2006	Harris Health Trends	Pvds. Health Mngmt. Svcs.	Axia Health Management			
1/19/2006	CorSolutions Medical	Pvds. Disease Mngmt. Prgms.	Matria Healthcare Inc.	\$445	3.7x	11.7x
12/23/2005	HealthCalc.Net	Online Health and Fitness Svcs.	Health Fitness Corp	\$6	NM	NM
7/28/2005	Gordian Health Solutions, Inc.	Personal Wellness Coaching	BlueCross BlueShield			
5/27/2005	Active Health Management, Inc.	Pvds. Wellness Mngmt. Svcs.	Aetna Inc.	\$405	6.7x	22.2x
4/16/2005	Summex Corporation	Pvds Wellness Mngmt. Svcs.	WebMD Health Corp.	\$40	6.7x	
				Low	0.4x	11.7x
				1st Quartile	2.5x	13.2x
				Mean	3.9x	16.2x
				Median	3.6x	14.7x
				3rd Quartile	6.5x	18.5x
				High	6.7x	22.2x

Source: CapitalIQ

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## Healthcare Practice Overview

At Greene Holcomb & Fisher, our healthcare investment banking group has a depth and breadth of experience that is unmatched in the middle market, with over 50 years of experience across the Medical Technology and Healthcare Services sectors. Our healthcare team's unique combination of investment banking, private equity, legal and operational experience provides our clients with a valuable perspective in helping them achieve their strategic objectives. We have advised dozens of publicly traded and privately held clients in a wide range of transactions, including mergers and acquisitions, strategic partnerships, private placements, fairness opinions, management buyouts and financial advisory assignments. We have completed transactions with a host of leading strategic and financial acquirers, including Bayer Healthcare, Greatbatch, Hitachi Medical Systems and United Health Group, among others.

Q2 Focus

August 3, 2009

Health & Wellness

### MEDICAL TECHNOLOGY

### HEALTHCARE SERVICES

#### Medical Devices

#### Medical Products

#### Healthcare Providers

#### Business Services/ Outsourcing

Cardiovascular  
Diabetes  
Endo- & Neuro-vascular  
Interventional Radiology  
Obesity  
Orthopedics/Spine  
Pulmonology  
Urology/Gynecology

Contract Manufacturing  
Dental Suppliers  
Diagnostic Devices  
Medical Components  
Medical Equipment  
Med-Surg Suppliers  
Specialty Packaging  
Surgical Instruments

ASCs/Specialty Hospitals  
Behavioral Health  
Dental Services  
Dialysis  
Home Health/ Infusion  
Managed Care/PBMs  
Rehab/Long-Term Care  
Workers Compensation

Clinical Laboratories  
Health Management  
Healthcare IT  
Health & Wellness  
IT-Based Outsourcing  
Pharmaceutical Services  
Revenue Cycle Management  
Telemedicine

## GH&F Healthcare Team



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- GH&F Managing Director
- 15+ years of investment banking experience
- Co-founded SightLine Partners Healthcare VC Fund
- Former M&A attorney at Kirkland & Ellis and Dorsey & Whitney
- University of Michigan (BBA)
- Harvard Law School (JD)



**Hunt Greene**  
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- GH&F Managing Director
- 20+ years of investment banking and venture capital experience
- Former executive at Cardiac Pacemakers (now Guidant Corp.)
- Northwestern University (BA)
- Harvard Business School (MBA)



**Chris Greene**  
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- GH&F Vice President
- 5+ years of investment banking experience
- Formerly at Chicago Mercantile Exchange and D.A. Davidson Investment Banking
- University of Oregon (BS)

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## Selected Healthcare Completed Assignments

**American Specialty Health**  
formerly a  
portfolio company of  
**TA Associates**  
has completed  
a recapitalization

**POSSIS**  
has been acquired by  
**MEDRAD**  
Performance. For life.  
an affiliate of  
**Bayer**

**Innocoll**  
Pharmaceuticals  
Financial Advisory

**REMMELE ENGINEERING**  
a portfolio company of  
Goldner Hawn  
has sold its  
Automation Division to  
**BUCKINGHAM**  
CAPITAL PARTNERS

**Innocoll**  
Pharmaceuticals  
has completed a strategic  
partnership with  
**Baxter**

**REMMELE ENGINEERING**  
has been acquired by  
**GOLDNERHAWN**

**enpath**  
medical, inc  
has been acquired by  
**GREATBATCH**

**Heart Leaflet Technologies**  
Financial Advisory

**THE SAUNDERS GROUP**  
INC.  
has been acquired by  
**ReAble**  
THERAPEUTICS, INC.

**HOME HEALTHCARE LABORATORY**  
of America  
has been acquired by  
**LabCorp**  
Laboratory Corporation of America

**COMPEX**  
Technologies  
has been acquired by  
**encore**  
Inspiring people. Enriching lives.

**MTC**  
Med-Trans Corporation  
has been acquired by  
Brockway  
Moran & Partners  
&  
**MVP**  
MERIDIAN VENTURE PARTNER

**HFC HEALTH FITNESS CORPORATION**  
has acquired  
**HealthCALC.**  
HEALTHCARE

**ChoicePoint**  
Osborn Lab Division  
has been acquired by  
**LabOne**

**SurModics**  
Bringing solutions to the surface.  
has acquired  
**InnoRx**  
Vision for the Future

**DELTA DENTAL**  
has sold its interest in an  
affiliate to  
**American Dental Partners, Inc.**

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