Cancer Center Business Summit

Capital Markets Perspectives on Cancer Care

Mitchell L. Kornblit
Managing Director,
Shattuck Hammond Partners

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Capital Markets Overview

- Capital Markets are in transition
  - Shaken by the “sub-prime meltdown”, capital markets are moving away from a very accommodative status to greater rigor in debt and equity markets
  - The prominent role of mergers and acquisitions as the driver of business valuation and debt and equity markets has been reduced since this summer’s market dislocation
  - Liquidity in the capital markets is still enormous – too much money chasing too few good deals

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Healthcare Capital Markets

- For the last several years, healthcare capital markets – debt and equity – have outperformed the general markets
  - Expenditures for healthcare are growing more rapidly than GDP
  - Stability of revenues reduces perceived risks for equity investors and lenders
- Noteworthy healthcare IPOs since 2006
  - HealthSpring: Medicare managed care ($19.50/$20.31)
  - NightHawk Radiology Holdings: Diagnostics ($16.00/$25.02)
  - Skilled Healthcare Group: Nursing Homes ($15.50/ $15.51)
- Investments in healthcare services continue to represent 10-15% of healthcare venture capital
- Healthcare M&A transactions YTD 2007 exceed $166 billion in value, consisting of over 600 transactions. This includes pharmaceuticals

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Healthcare Capital Markets (cont'd)

- As impressive as these statistics are, it is conspicuous how few cancer care businesses figure in the capital markets activity. In fact, few cancer care businesses have managed to maintain a consistent public market profile
  - USON
  - Salick
- Given how significant cancer care is, in terms of dollars spent and public awareness, why is this the case?

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Cancer Care vs. the Investor Profile

- The profile of the typical cancer care business is not always consistent with the prototypical investor-financed company
  - Repeatable business model
  - Conflict between physician/provider expectations and investor ROI goals
    - Do "roll-up" strategies create "value"? If so, for whom?
    - Capital intensive business
  - Hard-earned lessons from PPM era

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Does Investor Capital Create Value?

- Provider-business partnerships are the preferred approach
  - OnCURE – radiation oncology roll-up with physicians
    - Growing, but small footprint
  - Alliance Oncology – joint venture between Alliance Imaging and UPMC
    - Slow growth, small footprint
  - US Oncology – original PPM model has evolved to create more value for providers
    - $1.7 billion LBO transaction with Welsh Carson in 2004
    - December 2006 sale of 14.7% to Morgan Stanley valued company at about $2 billion
    - Growth in physician affiliations mostly coming from oncology pharmaceutical services
    - Earnings and growth outlook affected by CMS anti-anemia (ESA) decision

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Questions for the Future

- Is there a corporate model for cancer care that goes beyond the joint venture model?
- How do you assess the value added of external equity capital?
- Is there a conflict between clinical best practices and investor goals?
- What accommodations do practitioners have to make to attract external capital? When are they justified?

Contact

Mitchell L. Kornblit

Managing Director

Shattuck Hammond Partners

630 Fifth Ave., 29th Flr.

New York, NY 10111

Tel: 212.314.0400

mkornblit@shattuckhammond.com