The Keys to Successful M&A Transactions in 2008

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M&A Market Update

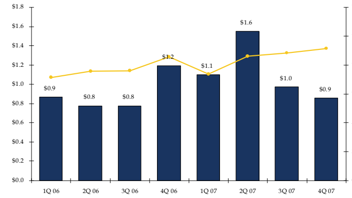
2007 was a Record Year for Global M&A Volume

Worldwide M&A volume surpassed an all-time record during 2007 with $4.5 trillion in announced deals, although a majority of that volume occurred in the first six months of the year.

- Worldwide M&A volume surpassed an all-time record in 2007 with $4.5 trillion in announced deals, a 24% increase over the previous set record in 2006
  - Despite the fall off in M&A activity during Q3 2007 caused by concerns in the credit markets, significant volumes were still recorded as a result of strong activity by foreign and domestic strategic buyers
  - Falling short of the all-time record for U.S. M&A activity set in 2000, transactions in the United States accounted for 36% or $1.6 trillion of worldwide volume, compared to 41% in 2006
- Private equity firms / financial sponsors were a major driver of worldwide M&A volume during 2007 with 19.5% of overall annual volume, a 9% increase over 2006
  - Although responsible for nearly 20% of 2007 deal volume in 2007, financial sponsors accounted for just 9% of worldwide M&A volume during Q4 2007, the lowest quarterly level since Q1 2004 due to the impact of the credit crunch
  - U.S. financial sponsor volume increased by 7.1% year-over-year and captured 29% of the U.S. M&A volume in 2007

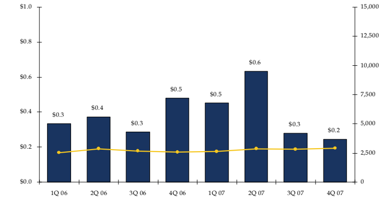
Quarterly Worldwide M&A Volume

($ in trillions)



Quarterly U.S. M&A Volume

($ in trillions)



Source: Thomson Financial

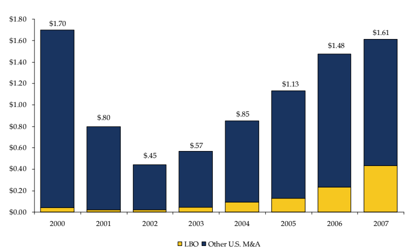
M&A Market Update

The U.S. M&A Outlook Remains Active

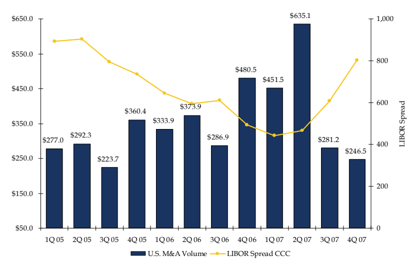
Even though the debt financing markets have changed dramatically over the past six months, the prevalence of equity capital in the market has kept deal volumes on pace with 2005 levels, which was, at the time, considered a strong year for M&A.

- According to Dealogic, the volume in M&A plummeted 37% year to date 2008 in the U.S.
  - Excluding the Microsoft-Yahoo transaction, 2008 M&A volume has decreased 56%
  - Only 23 $1+ billion transactions have been announced this year vs. 44 announced during the same time period last year
  - Approximately $12 billion of private equity led buyouts through February 2008, the lowest levels since July 2003
  - M&A volumes have been negatively correlated with the increased in risk spreads on corporate debt

Annual LBO and other U.S. M&A Volume
($ in trillions)



LIBOR Spread to Quarterly M&A Volumes
($ in billions)



Source: Thomson Financial, Bloomberg, Dealogic and Capital IQ

M&A Market Update

Hostile Takeovers are More Prevalent in the Marketplace

Hostile buyout offers are gaining in popularity as corporate buyers lose their patience and are no longer willing to take no for an answer

- According to Thomson Financial, there have been 13 hostile and unsolicited takeover offers year to date, which is double last year and the most hostile bids this early in a year since the 19 in 1991
  - 4 of the largest 10 offers in 2008 were hostile, including Microsoft's $40.2 billion bid for Yahoo and a private investor group's $3.2 billion offer for real estate investment trust Post Properties
- There are several reasons behind the increase in hostile buyout takeovers, including:
  - Stock market troubles
    - Prices of buyout targets have declined dramatically in the recent months
  - Shareholder activism
    - Investors are tired of waiting for a company to build and implement a comprehensive strategic plan
    - Large investors are increasingly looking to hostile takeovers as a way to force out ineffective management teams
  - Decreased access to capital
    - Companies with large amounts of cash on its balance sheets are free to go on a shopping spree, especially for companies that may need access to capital and can't borrow due to the credit crunch
    - Costly debt has also taken private-equity firms out of the equation
    - Early last year, targets could find a white knight or better offer from private equity sponsors, but the dollar volume of buyouts is down 85% this year as financing has become increasingly challenging according to Dealogic

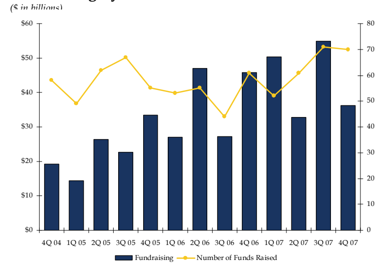
M&A Market Update
Private Equity Fundraising

2007 was a record high for buyout and mezzanine fundraising efforts

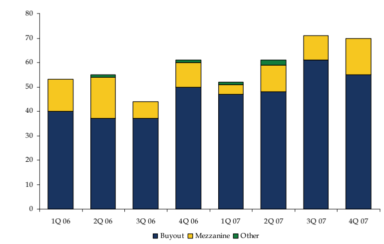
- While buyout fundraising fell in Q4 2007, full year 2007 fundraising reached $174.4 billion, the highest annual level on both a volume and number of deal basis
  - The ten largest funds raised in 2007, including GS Capital Partners VI, LP and Carlyle Partner V, LP, accounted for 42% of funds raised throughout the year
- There were 15 mezzanine funds raised in Q4 2007, the largest number since second quarter of 2006
  - Mezzanine funds accounted for 18% of fundraising and 21% of total funds raised in Q4 2007
  - No turnaround fund activity during the quarter, although a pick-up is expected in the number of these types of funds being raised

Fundraising by LBO and Mezzanine Funds [1]

($ in billions)



Buyout Fund Focus By Quarter

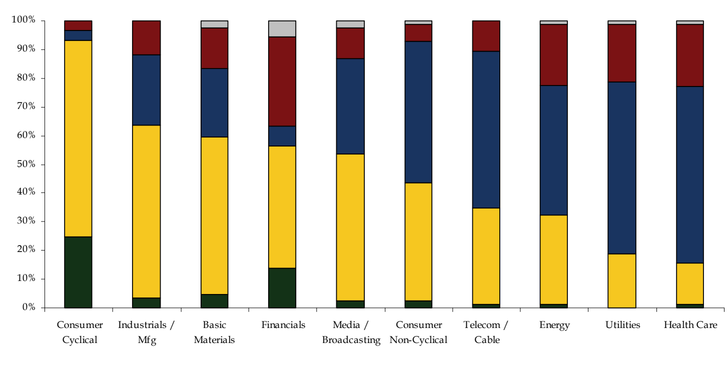


Source: Thomson Financial

[1] All figures take into account the subtractive efforts of downsized funds.

M&A Market Update
Health Care as a Sector is Expected to be Quite Stable

Health care is the sector within the economy that is least expected to experience significant deterioration in 2008



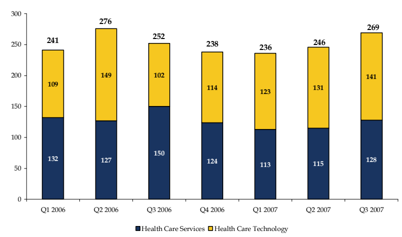
Source: The Current Investment Context and the Fitch Ratings/Fixed Income Forum Survey of Senior Investment Officers

M&A Market Update

Health Care M&A Activity

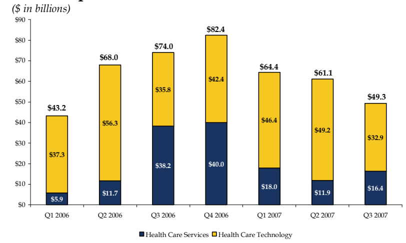
2007 was a strong year from health care M&A activity

Health Care Volume by Quarter



Dollars Spent on Health Care M&A

($ in billions)



Deal Volume Highlights

- 751 deals were announced during the first nine months 2007 down just slightly from the same period in the prior year.
- Through September 2007, 356 deals were announced in Services sectors. 395 deals were announced in the health care technology sectors.
- With 269 deals announced in Q2 2007, M&A activity was up 9.3% from the previous quarter and up 6.7% from Q3 2006.
- The most active sectors of Q3 2007 were long-term care, medical devices and pharmaceuticals.

Deal Value Highlights

- The total dollar value of the 751 deals announced during the first nine months of 2007 was $175 billion, up 15% from the $152 billion total announced in 2006 (excluding HCA's $33 billion transaction announced in Q3 2006).
- There were 12 billion-dollar deals in Q3 2007, with a combined value of $31 billion, accounting for 63% of the quarter's total M&A dollars.
- The largest strategic transaction during 2007 was the acquisition of Dade Behring by Siemens, with a purchase price of $7.0 billion.
- The largest sponsor driven transaction in the sector was the announced acquisition by The Carlyle Group of Manor Care for a purchase price of $6.3 billion.

Source: Irving Levin Associates, Inc. as of September 30, 2007
Health care services is comprised of Hospitals, Home Health, Long-term Care, Managed Care, and Other (Behavioral Health Care, Labs, Rehabilitation, and Physician G
Health care technology is comprised of Biotechnology, Medical Devices, Pharmaceuticals, and E-Health

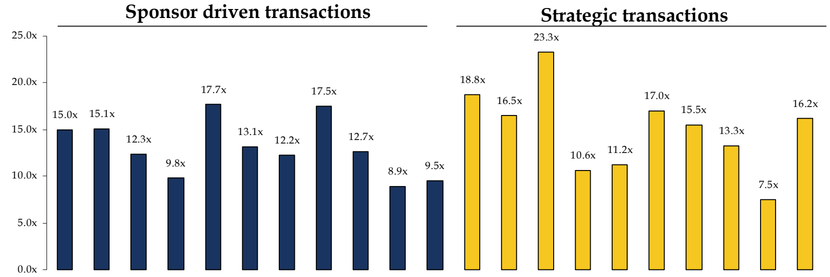
M&A Market Update

Selected Health Care Precedent Transactions

Multiples remained strong in the health care sector, even after the dropping of the credit bubble in July 2007

- Sponsor driven transactions had healthy multiples, ranging from 8.5x – 17.7x
- Strategic transactions had equally healthy multiples ranging from 7.5x – 23.3x on significant transactions

Enterprise Value / LTM EBITDA



Target	Press Ganey Associates	Lifecore Biomedical	Radiation Therapy Services	Encompass Home Health	PRA International	Manor Care	APS Healthcare	Bausch & Lomb	Symbion	Universal Hospital Services	HealthSouth Surgery Division
Acquirer	Vestar Capital Partners	Warburg Pincus	Vestar Capital Partners	Thoma Cressey Bravo and Northwestern Mutual Capital	Genstar Capital	The Carlyle Group	GTCR	Warburg Pincus	Crestview Advisors	Bear Stearns Merchant Banking	TPG
Date Announced	1/29/2008	1/15/2008	10/19/2007	8/6/2007	7/24/2007	7/2/2007	6/5/2007	5/16/2007	4/24/2007	4/16/2007	3/25/2007
Transaction Value	$765.0	$199.3	$1,105.2	$280.0	$796.4	$6,300.0	$285.0	$4,449.9	$637.0	$712.0	$945.0

Target	Respironics	Dade Behrings	Hologic	Triad Hospitals	Sierra Health Services	AmeriPath	Matria Healthcare	PolyMedica	HealthSouth Outpatient Rehab	Option Care
Acquirer	Royal Philips Electronics	Siemens Medical	CYTYC	Community Health Systems	UnitedHealth Group	Quest Diagnostics	Inverness Medical Innovations	Medco Health Solutions	Select Medical	Walgreens
Date Announced	12/21/2007	7/25/2007	5/20/2007	3/19/2007	3/12/2007	4/16/2007	1/28/2008	8/27/2007	1/29/2007	7/2/2007
Transaction Value	$4,618.2	$7,120.6	$6,429.4	$6,748.2	$2,610.0	$2,000.0	$1,180.0	$1,468.1	$245.0	$779.1

Source: Capital IQ, company filing and Cain Brothers' estimates

M&A Market Update

Health Care Services and Technology – Market Fundamentals

Recent Market Performance

- The stock performance of health care services and technology companies over the last year has been mixed
  - Public managed care companies have declined 6.8% while public health care provider companies have declined 10.7%
  - Alternate site providers, medical technology and pharma services and distribution sectors delivered the strongest performance

M&A Activity

- Approximately $200 billion of announced M&A health care services transactions since Jan 2005
- M&A is expected to continue to play an increasingly important role over the next several years
  - Many sub-sectors continue to remain fragmented offering benefits from scale/consolidation
  - HCIT and medical technology sectors remain active, accounting for approximately 25% of the 2007 transactions in the health care sector

Private Equity Interest Remains Robust

- Provider sectors that are large and have relatively stable cash flows such as acute care hospitals, long-term care facilities, and ambulatory surgery centers allow private equity mangers to put large amounts of capital to work.
- Sectors such as dialysis and clinical labs, where one or two dominant players have emerged in recent years, still leave the door open for platform companies to assume the "number 3" or "number 4" role.
- Alternative site investments that bring value by delivering better, faster, and cheaper care provide opportunities in home health, hospice, and "store-front" medicine.
- Enhancing the delivery of clinical services offers opportunities for profitably increasing quality and lowering costs. Improving disease management programs, behavioral health, and obesity treatment and different breeds of physician group practice companies have, therefore, been the focus of private equity dollars.

Washington Outlook

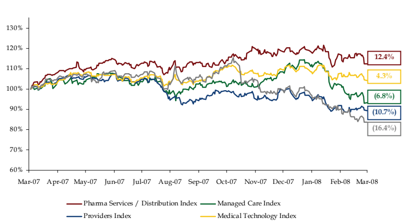
- Investors continue to monitor legislative actions at the federal as well as the state level as governments look to identify opportunities to reduce health care expenditures
  - Investors are focused on the upcoming 2008 elections
  - Growing budget deficit poses long term risk for sectors exposed to government reimbursement
- Several sectors, particularly managed care, PBMs and institutional pharmacy, focused on the Medicare Drug Benefit (Part D) roll-out, which is expected to see increased scrutiny from Congress in 2009

Capital Markets Update

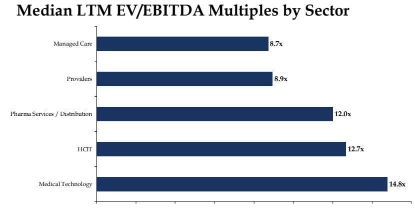
Public Health Care Companies Performance

- Over the last twelve months public health care services and technology companies have had mixed performances
- The best performing sector has been pharma services and distribution with a LTM stock performance of 12.4%
- Medical technology companies increased 4.3% LTM and carry a 14.8x LTM EBITDA multiple
- HCIT companies have declined 16.4% over the last twelve months but carry a health LTM EBITDA multiple of 12.7x
- Managed care and provider companies have seen a decline over the last twelve months, due in part to pre-election "jitters".
  - Public managed care companies have declined 6.8% (8.7x median LTM EBITDA multiple)
  - Public health care provider companies have declined 10.7% (8.9x median LTM EBITDA multiple)

Health Care Sectors LTM Stock Price Performance



Median LTM EV/EBITDA Multiples by Sector



Source: Capital IQ

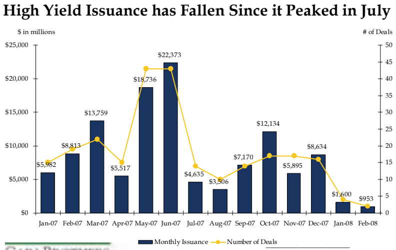
Capital Markets Update

The Debt Markets Have Seized Up

"There is risk that despite the huge declines that are already part of the current credit environment in the capital markets, things could get a lot worse" - Stephen Feinberg, Cerberus Capital Management

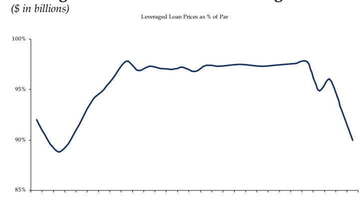
- Although rates have increased by nearly 600 bps, the lack of buyers in the marketplace has chilled the high yield market, which ground to a halt in July, and after a brief pickup saw volume fall again in early 2008.
- Bond insurance funds are in distress
  - Abnormal events in the $400 billion variable-rate market which have caused in some cases short-term rates to increase from 5% to 20%
- Liquidity in the bank loan market has been dried up driven by the $152 billion of corporate loans that remain in the pipeline to be priced, and because of the existing loans that are on bank balance sheets that are worth 90% or less of the issue price that also remain to be sold. Until banks sell down its loans, they will be challenged to participate in new financings.
- U.S. high yield defaults volume YTD 2/18/08 already more than all of 2007
- In the middle market, general financing sources have exited the market including Merrill Lynch Capital, D.B. Zwirn while others, like, CIT are, for the most part, on the sidelines.

High Yield Issuance has Fallen Since it Peaked in July



Leveraged Loan After Market Trading

($ in billions)



Source: S&P LCD, Bloomberg, The Wall Street Journal, Capital IQ and Cain Brothers Estimates

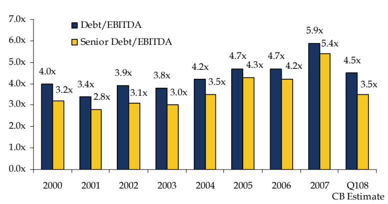
Capital Markets Update

The Cost of Capital has Increased

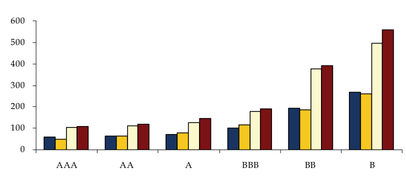
Leverage multiples have contracted while spreads have expanded

- Lenders have scaled back how much they are willing to lend a company, with total debt/EBITDA ratios being scaled back significantly from their 2007 highs
  - Total leverage has contracted from nearly 6.0x EBITDA in 2007 to between 4.0x and 5.0x EBITDA in 2008
  - Senior leverage is generally fixed between 3.0x and 3.5x LTM EBITDA
- Pricing on loans has increased significantly since July 2007
  - LIBOR spreads on senior debt has expanded from LIBOR +250 to LIBOR +450
  - LIBOR spreads on junior/second lien debt has expanded from LIBOR +600 to between LIBOR +800 and LIBOR +1000
  - While the overall cost of capital has increased, the increase in spreads has softened by the fall of LIBOR from nearly 5.0% in mid-2007 to around 3.1% currently

Avg. Total Debt/EBITDA and Senior Debt/EBITDA



U.S. Corporate Bond Five Year Spreads - Industrials

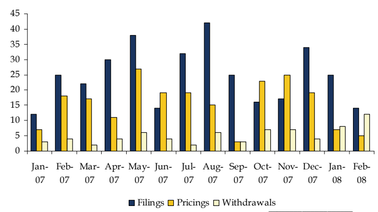


Source: S&P LCD, Bloomberg, Fitch Ratings and Cain Brothers Estimates

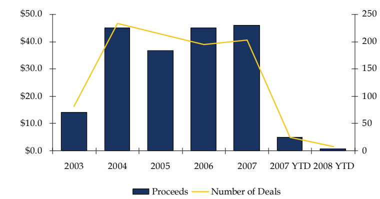
Capital Markets Update
IPO Market

- U.S. equity capital market proceeds increased by 8.8% to $226.5 billion in 2007 despite the drop in number of offerings, indicating greater average deal size
- IPOs generated $46 billion in proceeds compared to $45 billion in 2006
  - Largest IPO in 2007 was Blackstone Group's $4.8 billion offering
- In 2007, there were 66 SPAC IPOs that raised $12 billion
- According to Thomson Financial, the global credit crisis has forced IPO hopefuls to shelve flotations totaling $21.4 billion of IPO year to date, almost double the value of new equity issuance
  - A total of 61 global IPOs were withdrawn
  - A total of 92 global issuers raised approximately $12.2 billion in IPOs, the lowest level since 2003
  - U.S. contributed only 7% to global IPO issuance year to date, compared with last year's 33%

Monthly IPO Deal Flow



U.S. IPO Analysis
($ in billions)



Source: Thomson Financial and IPO Monitor

Capital Markets Update
Middle Market Lending Terms

Credit Bubble State of the Debt Markets

What Has Changed?

- Debt markets have come back in line with historical levels as far as pricing and structure
- Limited/no availability of debt for large cap (>$1 billion) LBOs
- Covenants are tighter (no more "covenant lite"), diligence is more intense, pricing has increased
- Large cap M&A transactions limited to strategic buyers
- Larger private equity firms likely to go "downmarket" to put capital to work in smaller deals
- Strong appetite on the part of financial sponsors for
  - Growing health care services companies, which they are willing to over equitize
  - Middle market transactions

Middle Market

Term	Before Market Adjustment	Current Guidelines
Senior Leverage:	▪ 4.0x – 5.0x	▪ 2.0x – 3.0x
Total Leverage:	▪ 5.0x – 6.0x	▪ 3.0x – 4.0x
Minimum Equity:	▪ 20%	▪ 30% - 35%
1st Lien Pricing:	▪ L+300 – L+350	▪ L+400 – L+500, 101 soft call protection
2nd Lien Pricing:	▪ L+600 – L+700	▪ L+800 – L+1000, 103-102-101 hard call protection
Mezzanine Pricing:	▪ Not typically utilized	▪ 15.0% - 18.0% plus warrant coverage seeking total returns of 20%
Up Front Fee:	▪ 2.0%	▪ 2.25% - 2.50%
Fixed Charge Coverage Ratio:	▪ 1.25x EBITDA or lower	▪ 1.50x EBITDA or higher
Other	▪ Syndicated deals ➢ Covenant lite ➢ Dividend recaps ➢ Low amortization of excess cash flow sweeps	▪ Club deals ➢ Traditional covenant package ➢ No dividend recaps ➢ Fixed amortization that is fully amortizing over life of loan ➢ Ability to adjust pricing up by to 150 bps ➢ LIBOR floors