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The Market for Medical Groups

Is It 1997 All Over Again?

Physician medical groups are back on the mergers and acquisitions radar. Last year, 68 acquisitions of doctors' practices were made public, the most prominent being the $4.2 billion takeover of **HealthCare Partners** by **DaVita, Inc.** (NYSE: DVA) in May. While that deal volume was down significantly from the 108 deals announced in this sector in 2011, health care industry observers agree that the pace of consolidation is accelerating as the deadline for implementation of the Affordable Care Act looms.

The January 1, 2014 deadline is making for some strange bedfellows, and reminding more than a few investors of a similar boom in physician medical group acquisitions, back in the 1990s.

"You've got insurance companies trying to build out networks of providers so they can try to control costs. You've got providers trying to understand better risk. You have both folks trying to partner with physicians, because physicians ultimately control costs," said Charles Ditkoff, senior advisor to **Marwood Group** and **Alvarez & Marsal**, speaking at the AGC Healthcare Conference in January.

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Assisted Living Concepts Sold

PE Firm TPG is the "Lucky" Buyer

In March of last year we first discovered that **Assisted Living Concepts** (NYSE: ALC) of Menomonee Falls, Wisconsin, was on the block. A special committee of the board was being represented by **Citigroup Global Markets, Inc.** with **Cravath Swaine & Moore LLP** as legal advisors. But you would never know it from any comments or actions of management. That process began to fall apart when the legal spat between ALC and its landlord for just eight properties, **Ventas** (NYSE: VTR), went public and ALC had to delay its first quarter earnings release as well as its annual shareholders' meeting. Rumors started to swirl.

Everyone, including some unlucky investors who briefly took the share price above $20, thought the delay was to announce a sale of the company, perhaps at an even higher price. That was not to be, and all we could determine was that the potential buyers thought there just had to be value, but couldn't figure out how a company with 60% occupancy in small markets

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"What concerns me, having been a banker in the 1980s and 90s," he added, "is I don't want to see a situation where we go back to these integrated delivery models with a lot of transfer-pricing issues, where you'll have a really successful insurance company but a really unsuccessful hospital. Or a really successful hospital, but the physicians are really losing money. The reality is, you have to have a really transparent system to understand what you're doing when you put these entities together."

For those who don't remember the 1990s, when physician practice management companies (PPMs) were the darlings—and then the dogs—of Wall Street, the concern may seem unwarranted. Back then, the hottest health care service sector for M&A activity included PPMs, independent physician associations (IPAs) and management service organizations (MSOs). Publicly traded companies made up the majority of the acquirers, with names like **MedPartners**, **PhyCor**, **PhyMatrix** and **American Oncology Resources**.

In the heyday of 1997, the health care services M&A sector broke all previous records, with 1,269 transactions announced in nine sectors, according to *The Health Care M&A Monthly*. The Physician Medical Group (PMG) sector accounted for 306 of those deals, up 16.8% over the 262 deals announced in 1996. Venture capital flowed so freely into the PPM industry in those years that there were at least 150 PPMs in 1998, approximately 30 of which were publicly traded. Many privately held PPMs tapped the equity markets by trying to go public.

Then, in Q4:97, the contraction began, with the appearance of dubious earnings reports. The downturn became something of a rout in the second half of 1998, with the flight of investors from the sector. For the first time in five years, deal volume dropped for the health care services sector, falling to 1,140 transactions across nine sectors in 1998. PMG's accounted for 260 of those. Publicly traded companies pulled back, whether because of bankruptcies, privatizations or flights to other lines of business. Only two PPMs went public in 1999, and deal volume in the sector fell to just 135.

As the dust settled, the remaining publicly traded companies tended to focus on a single specialty, such as **AmeriPath, Inc.**, which focused on pathology practices, or **Pediatrix Medical Group, Inc.** (now **MEDNAX Inc.**, NYSE: MD), which concentrated on pediatrics and neonatology practices. (AmeriPath, categorized as a laboratory service company, went private in 2002 and was purchased by **Quest Diagnostics**, NYSE: DGX, in 2007 for $2 billion.)

"That was a very opportunistic model that was driven by a couple of things. One was the ability of physicians to monetize their practices. The story that PPMs could bring efficiencies that would allow for higher profitability, those efficiencies didn't materialize," said Jim Moloney, managing director and co-head of tax-exempt M&A at **Cain Brothers**. "Lastly, the 90s phase was driven by strategies to assume risk. Most of those strategies failed pretty brilliantly."

What's Different Today?

With only 68 deals announced in the PMG sector in 2012, it seems premature to worry about another "gold rush." But a look at deal volume over the past decade

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(see chart on this page) shows deal volume has been rising gradually, from 27 in 2003 to a high of 108 in 2011. Dollar volume has been much more erratic, year to year, and is less reliable as even publicly traded companies like MEDNAX, **Team Health Holdings** (NYSE: TMH) and **IPC The Hospitalist Company** (NASDAQ: IPCM) do not report prices on individual transactions.

There are still parallels with the 1990s. Physicians and their practices are still being courted by hospitals, medical groups, managed care companies and others, all seeking to capture scale and lower costs—the same drivers that were at work in the 1990s. And doctors are still at the nexus of the care continuum, as they make treatment decisions and guide patients through the treatment process. But with the ACA's emphasis on value-based rather than volume-based health care, the concept of patient-centered medical homes, accountable care organizations and bundled payments, the realities of medical practice have changed dramatically.

"The difference now is that people are doing [deals] for different reasons and I think that it's more thoughtful," said Ditkoff. "The key to understanding the M&A activity is the goal. It varies between investor-owned entities, faith-based entities and other tax-exempt entities. Investor-owned entities should only be focused on adding shareholder value. Tax-exempt entities and the faith-based entities are looking at it from a completely different perspective. They're looking at fulfilling their broader mission and their decisions may not be as closely linked as those that enhance shareholder value."

Robert Mains, analyst at **Stifel Nicolaus**, covered the buying spree of the 1990s and sees a different economy at work today. "The salient difference between IPC, Team and MEDNAX versus PhyCor, MedPartners and all them is hospital-based physicians versus office-based physicians."

Hospital-based physicians work grueling hours, on schedules of 25 hours on-duty/71 hours off-duty, for example. "When you go in to buy their practice, you stick a million-dollar check in a guy's pocket," Mains said. "They don't have the option, like the office-based guys, of declaring Wednesday 'golf day.' They're still going to show up for work."

That medical version of a punch-clock mentality makes it easier for hospital-based doctors to consider selling out to a larger entity. "They get virtually all their volumes from the hospital, they use the hospital facilities. Granted, they're part of a PC, but it's like they're employees of the hospital anyway," Mains noted. "So to become employees of MEDNAX or Team or IPC, it's not that much of a mind change for them as it was for the office-based doctors."

It's not news that greed is a basic human motivator,

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Physician Medical Group Deals, 2003 - 2012

	Deal volume	% change	Dollar volume	% change
2012	68	-37.0%	$4,411,539,350	845.6%
2011	108	61.2%	$466,534,545	9.7%
2010	67	63.4%	$425,439,000	329.3%
2009	41	-22.6%	$99,100,000	- 63.9%
2008	53	29.3%	$274,540,148	144.2%
2007	41	28.1%	$112,417,050	-57.1%
2006	32	-8.6%	$261,900,000	-76.1%
2005	35	-2.8%	$1,095,886,694	-48.4%
2004	36	33.3%	$2,123,801,496	1596.4%
2003	27	-25.0%	$125,197,000	-39.0%

Source: Irving Levin Associates, Inc., February 2013

Deal Summaries—Technology — Biotechnology

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
GVAX assets Lincolnshire, Illinois	NASDAQ: BPAX	**Aduro BioTech, Inc.** Berkeley, California	Private	2/4/2013	$1,000,000

In Brief: BioSante is selling rights to all uses of two vaccines previously licensed to Aduro, called GVAX Prostate and GVAX Pancreas. In addition, Aduro is acquiring vaccines for multiple myeloma and breast and colon cancer, and assumes rights to GVAX Melanoma.

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
Rights to Octreolin Jerusalem, Israel	Private	**Roche Holding AG** Basel, Switzerland	NYSE: RO	2/18/2013	$65,000,000

In Brief: Octreolin is Chiasma's Phase 3 drug for acromegaly, a rare and progressive disease. Roche receives the exclusive worldwide license and assumes responsibility for commercializing the drug.

Deal Summaries—Technology — Medical Devices

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
HemoCue Angelholm, Sweden	Private	**Radiometer Medical ApS** Bronshoj, Denmark	Private	2/25/2013	$300,000,000

In Brief: Quest Diagnostics, owner of HemoCue, has been divesting its non-core properties. It will use the proceeds from this sale as part of a planned stock buy-back.

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
Cyrpa Medical Security Brussels, Belguim	Private	**C-RAD AB** Uppsala, Sweden	Stockholm: CRADB	2/26/2013	$1,402,200

In Brief: Closing will be no later than March 6, 2013, after which C-RAD has an option to acquire the remaining 71% of Cyrpa's shares it does not yet own.

Deal Summaries—Technology — Pharmaceuticals

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
Rights to ALN-PCS Cambridge, Massachusetts	NASDAQ: ALNY	**The Medicines Company** Parsippany, New Jersey	NASDAQ: MDCO	2/4/2013	$25,000,000

In Brief: Alnylam Pharmaceuticals is selling the global rights to ALN-PCS, a type of cholesterol-lowering drug. Alnylam will continue the program for an estimated one to two years. MDCO will lead and fund development from Phase 2 forward, if the clinical trials are successful.

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
Aurinia Pharmaceuticals Edmonton, Alberta	Private	**Isotechnika Pharma Inc.** Edmonton, Alberta	TSX: ISA	2/5/2013	$3,860,000

In Brief: Under the agreement, Isotechnika will acquire 100% of the outstanding shares of Aurinia in a stock swap, resulting in a 60-40 ownership split between Isotechnika and Aurinia, respectively. The company will be known as Aurinia Pharmaceuticals.

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
Rights to Voclosporin Seoul, South Korea	Private	**Aurinia Pharmaceuticals** Edmonton, Alberta	TSX: ISA	2/5/2013	$1,450,000

In Brief: ILJIN Life Sciences Company is selling its rights to Voclosporin, a drug for transplantation and autoimmune indications, such as lupus. The companies expect a formal agreement to be signed by March 15, 2013.

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
Rights to Tysabri Dublin, Ireland	Private	**Biogen Idec, Inc.** Weston, Massachusetts	NASDAQ: BIIB	2/6/2013	$3,250,000,000

In Brief: Elan Corp. sold its share of Tysabri, a monotherapy for relapsing multiple sclerosis that is approved in more than 65 countries. Biogen Idec anticipates the transaction will be approximately $0.20 to $0.30 accretive to 2013 GAAP earnings per share and will continue to be accretive.

Deal Summaries—Technology Pharmaceuticals (cont'd)

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
Rosemont Pharmaceuticals Ltd. Leeds, England	Private	**Perrigo Company** Allegan, Michigan	NASDAQ: PRGO	2/11/2013	$283,000,000

In Brief: Rosemont is expected to be dilutive to GAAP earnings per share after the inclusion of estimates for intangible amortization and integration related expenses. Perrigo now expects fiscal 2013 reported earnings to be between $4.67 and $4.87 per diluted share.

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
Agila Specialties Private, Ltd. Bangalore, India	NSE: STAR	**Mylan, Inc.** Canonsburg, Pennsylvania	NASDAQ: MYL	2/27/2013	$1,600,000,000

In Brief: The acquisition of Agila from parent Strides Arcolab Limited (NSE: STAR) will create a global injectables leader, significantly expanding Mylan's global injectibles platform and giving it entry into new, high-growth geographic markets.

Additional Transactions—Technology

Sector	Target	Acquirer	Date
E-HEALTH	etrinity NV	CTG	2/1/2013
	Evolute Consolidated Holdings	PipelineRx	2/19/2013
	CareClarity, INc.	Cymetrix	2/26/2013
	Oregon Health Network	OCHIN, Inc.	2/26/2013
	Touch Medical Solutions, Inc.	DMH International	2/27/2013
MEDICAL DEVICES	Assets of Microsulis Medical Limited	AngioDynamics, Inc.	2/1/2013
	51 U.S. patents and applications	TandemDiabetes Care, Inc.	2/1/2013
	Cylex, Inc.	Viracor-IBT Laboratories, Inc.	2/5/2013
	Preferred Surgical Products, LLC	Ansell Healthcare Products LLC	2/11/2013
PHARMACEUTICALS	Catalana de Dispensacion, SA	Advanced Accelerator Applications, SA	2/1/2013
	Barnatron	Advanced Accelerator Applications, SA	2/1/2013
	Rights to Econazole Nitrate Cream 1%	IGI Laboratories, Inc.	2/4/2013

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but so is fear. As Cain Brothers' Moloney noted, "The motivation today is very different. I think there's a lot of fear on the part of providers across the spectrum, and that certainly includes physicians. The safety of being part of a system with deeper resources is attractive."

Indeed, hospital-physician integration is becoming the new norm. A recent report from **MedAxiom** found that 53% of U.S. cardiology groups are fully integrated with a hospital. Of the 2,420 physicians surveyed, 14% of cardiology groups are in the process of integrating while 11% are considering hospital integration.

Reimbursement is also a compelling component behind the migration to hospital employment, and it certainly is a factor for cardiologists and other surgical specialties. According to data from the **American Medical Group Association**'s 2012 Medical Group Compensation and Financial survey, orthopedic, cardiac and thoracic surgeons and invasive cardiologists polled had median salaries above $500,000. Specialists with compensation of $400,000 and up included diagnostic radiologists, non-invasive cardiologists, gastroenterologists and urologists. Anesthesiologists reported a median salary of $377,375 in 2012.

And while the average starting salary for neurosurgeons was $669,000, according to the same survey, primary care physicians such as pediatricians and hospitalists earned much less than many other specialties. Pediatricians' median salary was just $220,644 in 2012—only slightly higher than the lowest-reported median salary of $217,194, paid to psychiatrists.

As a November 2012 article by *Bloomberg* pointed out, hospitals receive higher Medicare reimbursements than individual doctors can for specialty services, so that hospital-employed doctors can earn up to three times more for the same tests and procedures they performed in private practice. The bargaining power of hospitals greatly exceeds that of small practices, too.

Finally, the doctors themselves are different from those working in the 1990s. "There's not the same entrepreneurial profile of people that graduated 10, 15, 20 years ago, who wanted to build practices and become in-

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ALC Sold—Finally

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could be as profitable as ALC was. In fact, it wasn't. At the same time that Ventas was seeking a declaratory judgment that ALC had breached its obligations under its lease, there were other problems brewing at various communities around the country, some of which made it into the local media, and they didn't bode well for ALC management.

The final straw was when rumors surfaced that some employees had been living in some of the communities to be counted as "census," in order not to violate certain lease convenants. It was most likely these allegations that prompted an investigation by the SEC, since it would be secruities fraud if "ghost residents" were being used to cook the books. Even though these allegations were never proved (to our knowledge), all of this was probably too much, even for a board that had spent the previous three years being absolutely clueless as to what was going on.

So to end the litigation, ALC was essentially forced to overpay for its Ventas-leased properties, CEO Laurie Bebo was fired and board member Chip Roadman installed as temporary CEO. Then they "discovered" they needed to add 800 new employees at their 210 communities, despite occupany rates hitting new lows, and their industry-leading operating profit margin was cut in half and the share price plunged from a high of $20.33 to $6.93. Management formally announced they were reviewing all assets but denied the company was for sale, buyers were still sniffing around and Citi was still advising. Management continued to deny, at least to the local media in the markets they were in, that the company was for sale—as recently as last month.

None of the health care REITs would touch the company, and it appeared a potential buyer would have to be a private equity firm that that thought they could "do a Blackstone," meaning buy some troubled assets on the cheap, increase the census and sell them for more. ALC's shares were trading at a value of about $50,000 per unit, which for assisted living is certainly at the low end of the spectrum, although they did own some decent assets and very few of them were considered "old."

What seemed like a bargain has two very big issues. The simplistic one is that, embedded in the market average are many properties that sold for $200,000 or more per unit—bought by investors who would not even consider the ALC properties. The other problem was that the "average" property sold did not have an occupancy rate of 60% in a secondary or tertiary market with 40 units that used to cater to the Medicaid waiver population.

It's no wonder that, for 12 months, buyers looked but walked away. In steps **TPG Group**, one of the largest private equity firms in the country but one with limited seniors housing experience. The last time they invested in the sector in a big way was in 1997, when they co-invested in the former **Genesis Health Ventures**' $1.06 billion purchase of **The Multicare Companies**, a large skilled nursing company in New Jersey. Within two years, the combined entity was facing bankruptcy and had a share price worth just pennies. Not a good experience.

So now, TPG has agreed to acquire ALC for approximately $278.2 million for the equity plus assumed debt of about $180.2 million based on the last reported financial statement. That brings the total deal value to about $458.4 million, or close to $58,000 per owned unit, if you subtract the ones leased from **LTC Properties** (NYSE: LTC). We removed the 37 properties with 1,427 units from the equation because the lease expires at the end of 2014. ALC's former parent, **Extendicare** (TSX: EXE), guarantees those leases and without the guarantee, it is doubtful LTC will renew. There is no reason for Extendicare to continue that guarantee when the relationship ended years ago.

Now the hard work begins for TPG, starting with increasing occupancy rates. Assuming the LTC leases go away, our forecasts will include about 173 communities with 7,886 units. As of September 30, 2012, occupancy for the entire company was 59.5% and revenue per occupied unit was $115 per day, which results in annual revenues of just under $200 million. If occupancy grows to 70%, at that same daily rate, revenues would grow to $232 million. At 80% occupancy, they would be $265 million and the per-unit value would be approaching $100,000. TPG could then start thinking they had indeed pulled off a Blackstone. The forecasts are obviously simplistic, lacking any other information, but they illustrate what the financial picture could look like if the census can improve. That's where the hard work comes in.

Hopefully the TPG team learned something from the Multicare deal 15 years ago and have some fresh ideas. **Goldman Sachs & Co.** acted as financial adviser to TPG and **Skadden, Arps, Slate, Meagher & Flom LLP** acted as legal counsel. It will be interesting to see who is going to run the company and if it stays in Wisconsin. More to come, no doubt.

Health Care Technology Deals

Deal volume stayed fairly light in February, with only 22 deals announced in the technology health care sector and few of those with prices—although the prices that were announced were fairly impressive, even given that biotechnology and pharmaceuticals are part of this sector. Buying the rights to someone else's drug is becoming more and more lucrative, if not downright commonplace. But those deals are not without their own peril, as **Elan Corporation**'s (NYSE: ELN) executives have discovered. (See Pharmaceuticals, below.)

Biotechnology

First up is the $65 million cash-upfront payment **Roche Holding AG** (NYSE: RO) made for the worldwide commercial rights to Octreolin, purchased from Israel-based **Chiasma**. The drug was developed to treat acromegaly, a rare and progressive disease caused by the over-production of growth hormone, but may also prove effective on neuroendocrine tumors, which would widen the drug's potential market. It's currently in Phase 3 trials that are scheduled to wrap up in the second quarter of this year. The arrangement includes the $65 million upfront payment, future considerations of up to $530 million in development and commercial milestones, as well as tiered, double-digit royalties on Octreolin net sales. Roche's wholly owned subsidiary **Genentech** will market the product in the U.S. after FDA approval. **Evercore Partners** served as Chiasma's financial advisor on the transaction, and **Latham & Watkins LLP** its legal advisor.

In a much smaller sale of drug rights, **BioSante** (NASDAQ: BPAX) is selling rights to all uses of two vaccines previously licensed to **Aduro BioTech, Inc.** for use with its Listeria-based vaccines. The clinical-stage immunotherapy company is paying $1 million for GVAX Pancreas and GVAX Prostate, as well as acquiring additional vaccines for multiple myeloma and breast and colon cancer. It also assumes rights to the existing license agreement it has for GVAX Melanoma. Additional milestone and royalty payments will be made after the commercialization of the GVAX products.

eHealth

Several deals in the health IT area were announced last month, but none came with a price. One was **CTG** (NASDAQ: CTGX) of Buffalo, New York, an IT company that is expanding its reach into healthcare projects and engagements in Europe. On February 1, CTG announced the acquisition of **etrinity NV**, a Benelux health care system integrator with a complete set of services and solutions that focus exclusively on healthcare. Etrinity is the type of company that CTG says it plans to acquire more of. That is, smaller niche healthcare providers in the U.S. and Europe. It expects the deal to be neutral to slightly accretive to its 2013 earnings.

Two nonprofit health information companies announced their agreement to join forces on April 1, 2013. **OCHIN Inc.**, which specializes in health IT, will acquire **Oregon Health Network** for an undisclosed price. OCHIN's mission is to help area health professionals adapt to the IT requirements demanded by recent health reform legislation, while Oregon Health is dedicated to improving the quality, access and delivery of healthcare statewide through its 228 member facilities. OCHIN is one of the largest U.S. health information IT networks, now in 14 states. It is recognized for its innovative use of health IT to improve the integration and delivery of health services.

Medical Devices

As part of its previously announced plan to divest itself of non-core businesses, **Quest Diagnostics, Inc.** (NYSE: DGX) agreed to sell its **HemoCue** diagnostics division, based in Angleholm, Sweden, to Danish device maker **Radiometer Medical ApS** for about $300 million. HemoCue develops hemoglobin, glucose and other point-of-care testing systems worldwide. Radiometer offers acute care testing products. The all-cash deal is expected to close in March.

Pharmaceuticals

Continuing the rights-sale theme, **Alnylam Pharmaceuticals, Inc.** (NASDAQ: ALNY) parted with the global rights to ALN-PCS RNAi therapeutic program for the treatment of hypercholesterolemia, which is still in development. Hypercholesterolemia is characterized by very high levels of cholesterol in the blood, known to increase coronary artery disease, the leading cause of death in the United States. **The Medicines Company** (NASDAQ: MDCO) agreed to pay $25 million in cash up front and up to $180 million in development and commercial milestone payments. Alnylam will continue the program for an estimated one to two years, to complete pre-clinical and Phase 1 studies. MDCO is responsible for leading and funding development from Phase 2 forward, and commercializing the program if it is successful.

February 5th was a big day for **Aurinia Pharmaceuticals**, when it agreed to merge with **Isotechnika Pharma Inc.** (TSE: ISA), via a stock swap that traded 100% of Aurinia for 40% of Isotechnika's outstanding shares. The deal is valued at $3.86 million. The merged company will take Aurinia's name when the final agreement is signed before March 15, 2013 and will pay $1.45 million to reacquire full rights to the novel calcineurin inhibitor voclosporin for autoimmune indications, including lupus for the U.S., Europe and other regions of the world outside of Canada, China, Hong Kong, Israel and South Africa.

Those rights will be reacquired from **ILJIN Life Science** of Seoul, South Korea, which withdrew claims for damages against Isotechnika in January 2013, resolving a year-long legal dispute over a development, distribution and licensing agreement. Isotechnika terminated the accord in January 2012, saying it wanted to engage ILJIN and other companies that expressed interest in voclosporin. One of those companies was **Vifor Pharma**, part of Swiss-based **Galenica Group**, from which Aurinia was spun out. In return, ILJIN will own 25% of the new company and will also be entitled to $10.03 million in predefined future milestone payments, plus up to $1.61 million tied to undisclosed financing milestones.

This is more like the deal that undid the company. On February 6, **Elan Corporation** sold its interest in the successful MS drug, Tysabri, to its partner in the venture, **Biogen Idec** (NASDAQ: BIIB), for $3.25 billion. The agreement included royalty payments to Elan of between 18% and 25% on global net sales beginning in 2014. Biogen's shares rose 2.6%, to $161.40 in midday trading, while Elan's American depositary shares dipped 8.4% that day, to $9.59. But they rose quickly after CEO Kelly Martin announced on February 18 that shareholders would receive $1 billion from the sale, refinance its approximately $600 million in debt and look for acquisitions to boost its tapped-out pipeline.

Enter investment firm **Royalty Management LLC** and its **Royalty Pharma AG**, a Swiss stock corporation that acquires royalties and other contractual rights that entitle it to receive a portion of the revenue from the sale of biotech and pharma products. Its unsolicited $6.55 billion offer for Elan was ignored until RP went public with its offer on February 20, asking ELN shareholders to consider its $11 per share offer, a 3.8% premium on the closing price of February 18. Not surprisingly, on February 25, Elan's Board of Directors replied that Royalty Pharma's "highly opportunistic timing" made it difficult for Elan shareholders to assess and realize the benefits of the Tysabri deal, which had not yet closed. While they still weren't pointing to any acquisition targets in early March, Elan management did offer shareholders a twice-annual cash dividend linked directly to the sales of Tysabri. This isn't over yet.

The Month in M&A at a Glance: Health Care Technology, February 2013

Sector	Deal Volume	Combined Price
Pharmaceuticals	10	$5,219,210,000
Medical Devices	5	301,402,200
Biotechnology	2	66,000,000
eHealth	5	—
Total	22	$5,586,612,200

Another billion-dollar deal was announced by **Mylan, Inc.** (NASDAQ: MYL), which ponied up $1.6 billion in cash for **Agila Specialties Private Limited**, owned by **Strides Arcolab Limited** (NSE: STAR). Agila develops, makes and markets high-quality generic injectable products and will make Mylan a global leader in injectables and provide entry into new high-growth markets. The agreement also provides for up to an additional $250 million in potential payments subject to the satisfaction of certain conditions by Strides. Mylan expects the acquisition to be immediately accretive to its adjusted diluted EPS following closing some time in the fourth quarter of 2013. Mylan will not assume any outstanding debt or acquire Agila's cash as part of the transaction. **Morgan Stanley** has committed to providing a new $1 billion senior unsecured bridge term loan and is serving as financial advisor to Mylan. **Skadden, Arps, Slate, Meagher & Flom LLP** is acting as overall legal advisor.

In a simple, straight acquisition, **Perrigo Company** (NASDAQ: PRGO) of Allegan, Michigan, announced it would pay $283 million in cash for **Rosemont Pharmaceuticals Ltd.** of Leeds, England. Rosemont is a specialty and generic prescription drug company focused on manufacturing and marketing oral liquid formulations and currently has more than 90 products in its portfolio. Perrigo makes and distributes OTC and generic prescription pharmaceuticals, infant formulas, nutritional products, pet health, dietary supplements and active pharmaceutical ingredients, and is the world's largest manufacturer of OTC

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pharmaceuticals for the store-brand market. It is actually just the latest in a string of owners that Rosement has had since September 2002, when it was sold by **Akzo Nobel NV** (NASDAQ: AKZOY) to **Bio-Technology General Corp.** (NASDAQ: BTGCE) for $99.5 million, giving the New Jersey-based BTGCE a presence in the European specialty market. In August 2006 it was acquired by London-based **Close Brothers Private Equity** for $176 million. The latest deal fits Perrigo's aspirations to access a specialty market, expand into additional liquid formulations and take hold of a leadership role in a sizeable and growing market. Rosemont is expected to be approximately $0.04 to $0.07 dilutive to GAAP EPS. Including this acquisition, Perrigo now expects fiscal 2013 reported earnings to be between $4.67 and $4.87 per diluted share.

Health Care Services

Activity seems to have fallen off on the services side of health care in February, although many announced deals came with no prices, similar to the technology side. As usual, Long-Term Care deals were the most numerous.

Behavioral Health Care

Acadia Healthcare Company (NASDAQ: ACHC) announced its purchase of **Delta Medical Center** in Memphis, Tennessee, a 243-bed hospital with the majority of those beds dedicated to acute inpatient psychiatric patients. It is the first of Acadia's hospitals that allows for treatment of psychiatric patients with medical complications, thanks to an inpatient surgical component. It's also the first that is employee-owned under an Employee Stock Ownership Plan. No purchase price was announced.

Home Health & Hospice

Addus HomeCare Corp. (NASDAQ: ADUS) is selling its home health service line to **LHC Group Inc.** (NASDAQ: LHCG) for $20 million. The motivation for Addus is to focus entirely on its home and community business. LHC, which provides post-acute health care services primarily to Medicare beneficiaries in the southern U.S., will acquire 100% of the assets of three home health agencies in Arkansas, one home health agency and two hospice agencies in South Carolina and one home health agency in Nevada. The company will acquire 90% of the assets of eight home health agencies in Illinois and six in California, with Addus retaining a 10% ownership interest in those locations. The estimated 65-and-older population in the acquired service area totals 2.6 million. Annual revenue is approximately $36.7 million. The deal closed on February 28, 2013, but not before **Advantage Health Systems, Inc.** filed a temporary restraining order with the Delaware Chancery Court on February 19. Addus announced that Advantage had withdrawn its motion on February 22. **The Braff Group** acted as financial advisors to Addus, and **Winston & Straw** acted as legal advisors.

Freedom Home Healthcare, based in Hackensack, New Jersey, merged with **Epic Health Services, Inc.** of Dallas, Texas. While Freedom's focus is on providing in-home care for older adults and acting as a professional referral service, Epic is a growing provider of pediatric and adult home health care. It also provides pediatric therapy services and private-duty nursing services for adults with chronic illnesses or catastrophic injuries. Freedom's operations in Pennsylvania and private-duty nursing services will now be known as Epic Health Services. However, Freedom Home Healthcare will retain its name on its concierge-level services for older adults in New Jersey.

Scripps Health, a $2.6 billion integrated health system in San Diego, California, just rescued neighboring **San Diego Hospice** from bankruptcy to the tune of $10.7 million. The hospice is one of the largest community-owned, not-for-profit hospices in the country. But in the 90 days prior to the acquisition, it suffered a 50% decline in patients and revenue, causing it to file for Chapter 11 protection. It had been undergoing a federal audit since 2011, as well. Scripps Health will extend a $5 million debt-in-possession loan and has purchased another small hospice company in order to receive a state license to begin receiving patients from San Diego Hospice.

Hospitals

The Cancer Center at Metro Health Village in Wyoming, Michigan changed hands early in the month, when New York-based REIT, **American Realty Capital Healthcare Trust**, payed $6.2 million for the 208-bed facility. The Cancer Center was co-owned by Metro Health and **Triangle Associates Inc.**, which developed the 21,052 square foot radiation oncology center in 2008 for $7.3 million. Metro Health will continue to provide radiation therapy at the center. A 15-year lease by Metro Health runs through June 2022, and is expected to generate $600,000 annually for the REIT, according to a quarterly financial report filed with federal securities regulators. ARC-Healthcare Trust owns 43 healthcare properties in

(continued on page 12)

Deal Summaries—Services — Home Health & Hospice

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
Home health service of Addus Palatine, Illinois	NASDAQ: ADUS	**LHC Group Inc.** Lafayette, Louisiana	NASDAQ: LHCG	2/7/2013	$20,000,000

In Brief: Addus HomeCare is selling its home health service line in order to focus entirely on their home and community business. LHC will acquire five home health agencies in three states and a 90% stake in 14 home health agencies in two states. Addus retains a 10% interest in those agencies.

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
San Diego Hospice San Diego, California	Nonprofit	**Scripps Health** San Diego, California	Nonprofit	2/13/2013	$10,700,000

In Brief: In the 90 days prior to the acquisition, San Diego Hospice suffered a 50% decline in patients and revenue. It filed for Chapter 11 bankruptcy on February 4, 2013. Scripps Health will extend a $5 million debtor-in-possission loan to help maintain operations during the transition.

Deal Summaries—Services — Hospitals

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
Cancer Center at Metro Health Wyoming, Michigan	Private	**American Realty Capital Health** New York, New York	Private	2/3/2013	$6,200,000

In Brief: The Cancer Center at Metro Health Village is co-owned by Metro Health and Triangle Associates Inc. American Realty Capital Healthcare Trust is part of American Realty Trust, a private REIT. Metro Health will continue to provide radiation therapy through a joint venture with the University of Michigan Health System after the facility's sale.

Deal Summaries—Services — Long-Term Care

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
Woodview Assisted Living Fort Wayne, Indiana	Private	**The Woodlands** Louisville, Kentucky	Private	2/1/2013	$11,550,000

In Brief: The seller was a multifamily owner/operator and the property was their only senior living asset. Woodview was first built in 2008 with 58 assisted living units. In 2010, 30 memory care units were added on.

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
Assisted living facility Southeastern Michigan	Private	**Not disclosed** Illinois	Private	2/1/2013	$12,000,000

In Brief: This facility was built in stages beginning in 2001 and was finished in 2011. It consists of two side-by-side buildings with 40 beds each. It is licensed for 80 beds and occupancy was 90%. Marcus & Millichap represented the seller.

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
The Residence at Forsgate Monroe Township, New Jersey	Private	**Chelsea Senior Living, et. al.** Fanwood, New Jersey	Private	2/1/2013	$7,100,000

In Brief: The three-story property has 89 units of assisted living and a separate 28-unit memory care wing. Chelsea and Focus Health Care Partners formed a joint venture with Artemis Real Estate Partners to complete the deal. The seller was represented by Cassidy Turley.

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
Victorian Manor portfolio Various sites in Missouri	Private	**Americare Systems, Inc.** Sikeston, Missouri	Private	2/6/2013	$22,500,000

In Brief: The portfolio consists of eight campuses, two of which have separate memory care buildings. All were built between 2002 and 2012, with the prototype for residential care being 48 units and 21,360 square feet. Overall occupancy was about 90%.

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
Two senior communities New York	Private	**Care Investment Trust Inc.** New York, New York	OTCQX: CVTR	2/8/2013	$23,300,000

In Brief: These two senior apartment communities were originally owned by affiliates of Calamar Enterprises, Inc., which developed them in the last five years. Care Investment Trust will acquire 75% ownership while the affiliates of Calamar will retain 25% ownership.

Deal Summaries—Services — Long-Term Care *(cont'd)*

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
Cranbrook of Greenwood Village Greenwood Village, Colorado	Private	**MBK Senior Living** Irvine, California	Private	2/12/2013	$19,250,000

In Brief: This 67-unit assisted living community has about 90% occupancy. MBK plans to convert several of the larger units, which include some two-bedroom units, to studios and one-bedrooms, adding about 12 to 15 units in all. The name has been changed to The Inn at Greenwood Village.

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
Destinations at Eastern Las Vegas, Nevada	Private	**Cerulean Partners, LLC** Wilmette, Illinois	Private	2/18/2013	$4,250,000

In Brief: The property is a 116-unit independent living community that was built in 1985 on 7.2 acres. The seller was the special servicer that took over the property after the previous owner, Starwood Capital and Orion Residential, defaulted.

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
Two skilled nursing factilities Nashville, Tennessee	Private	**AdCare Property Holdings** Roswell, Georgia	NYSE: ADK	2/24/2013	$28,000,000

In Brief: These two facilities, 180-bed Bethany Health and Rehab and 240-bed Trevecca Health and Rehab, are being sold by Avalone Health Care LLC. The purchase price includes $25 million in cash and $3 million in a promissory note.

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
Assisted Living Concepts, Inc. Menomonee Falls, Wisconsin	NYSE: ALC	**TPG Group** Fort Worth, Texas	Private	2/26/2013	$458,400,000

In Brief: ALC stockholders will receive $12.00 in cash for each share of Class A common stock, and $12.90 for each share of Class B common stock.

(continued from page 10)

16 states, and this is its third acquisition in Michigan.

Way down on the Eastern Shore of Maryland, two hospital health systems announced a merger to form a single entity with a single governance board, effective July 1, 2013. **Chester River Health System** in Chestertown is an integrated delivery system with a 47-bed hospital, a senior care facility, and hospice and home care services. **Shore Health System** operates 129-bed Memorial Hospital in Easton and 58-bed Dorchester General in Cambridge, as well as a variety of outpatient facilities and five physician practices. Both systems are members of the University of Maryland Medical System.

Long-Term Care

AdCare Health Systems (NYSE: ADK) has signed an agreement to purchase two skilled nursing facilities in Nashville, Tennessee with a total of 420 beds. The purchase price is $28.0 million in cash and the seller, **Avalon Health Care, LLC**, will hold a $3.0 million note for three years with a 5% interest rate. The deal is expected to close by the end of March.

The Ensign Group (NASDAQ: ENSG) has just closed on a skilled nursing facility in Texas. The 150-bed facility was originally built in 1963 with a major renovation completed in 2001. Even though occupancy was only 65%, it was reasonably profitable becasue of the size. The purchase price was $4.5 million, or $30,000 per bed. Located in Amarillo, ENSG should be able to improve on the 7% Medicare census, which will increase cash flow. **Senior Living Investment Brokerage** handled the transaction.

In a very different type of sale, **Cerulean Partners, LLC**, a venture-backed private real estate investment firm, purchased **Destinations at Eastern**, an under-performing, full-service 116-unit independent living community in Las Vegas, Nevada. The new name is The Echelon. Built in 1985, the campus has eight residential buildings and one two-story clubhouse on 7.2 acres. With a purchase price of $4.25 million, or just $36,600 per unit, Cerulean plans to invest another $400,000 in improvements and transition to market rates, which are improving even in this area. They have hired Missouri-based **Arrow Senior Living** to manage the property, and Las Vegas-based **Town and Country Bank** provided the mortgage financing. **Newmark Grubb Knight Frank** represented the receiver in the sale.

In another turnaround situation, **Focus Healthcare Partners** and its joint venture partner, **Artemis Real Estate Partners**, teamed up with New Jersey-based **Chelsea Senior Living** to purchase a 117-unit assisted living and

Additional Transactions—Services

Sector	Target	Acquirer	Date
BEHAVIORAL HEALTH	Delta Medical Center	Acadia Healthcare Company	2/1/2013
	Family Behavioral Resources Inc.	Community Intervention Services	2/1/2013
HOME HEALTH & HOSPICE	Freedom Home Healthcare	Epic Health Services, Inc.	2/22/2013
	Pace Group of Companies	We Care Health Services	2/11/2013
HOSPITALS	Chester River Health System	Shore Health System	2/8/2013
	Emanuel Medical Center	Tenet Healthcare Corporation	2/21/2013
LONG-TERM CARE	Michigan assisted living facility	Not disclosed	2/1/2013
	Lavender Court Care Home	MedicX Healthfund	2/12/2013
	Santa Cruz Skilled Nursing Center	Management shareholders	2/13/2013
	Marycrest Manor and Marycrest Heights	Trinity Senior Living Communities	2/14/2013
	Valley View Care & Rehab	Deseret Health Group	2/22/2013
	Jewish Federation Towers	James Carmichael	2/27/2013
PHYSICIAN MEDICAL	Two physician medical groups	TeamHealth	2/5/2013
	Basin Healthcare Center	Nueterra	2/7/2013
	Internal Medicine Consultants	IPC The Hospitalist Company	2/14/2013
OTHER	CREST Services	Crothall Healthcare	2/7/2013
	Miami Research Associates	QPS, LLC	2/26/2013

memory care community in New Jersey for $7.1 million, or $60,700 per unit. The community was built in 1996 and was only 64% occupied at the time of the court-ordered receivership sale. The buyers plan on investing "significant" capital to upgrade the physical plant, which should take 12 months. Bridge financing was arranged by **Grandbridge Seniors Housin**g, placing the debt with its lending platform, **BB&T Real Estate Funding LLC**. **Cassidy Turley** represented the seller.

Deseret Health Group has recently doubled its presence in Wyoming with its acquisition of **Valley View Care and Rehab**, a skilled nursing facility there. And with a purchase price of just $750,000, or just $16,300 per bed, there is a lot of upside to this deal. The 46-bed facility was built about 35 years ago. Deseret now manages about 25 nursing facilities in five states, and with two in Wyoming, the assumption is they will be able to stabilize occupancy and manage costs better than the seller, the former **Sun Healthcare**, which was represented by **Marcus & Millichap**.

Other

Do-it-yourself home health care is big business, as in $2.07 billion big. **Cardinal Health** (NYSE: CAH), the second-largest distributor of prescription drugs in the U.S., saw an opportunity to open a new distribution channel with its acquisition of **AssuraMed**, a direct-mail order provider of more than 30,000 medical products for chronic disease patients. AssuraMed, owned by private equity firms **Clayton, Dubilier & Rice** and **Goldman Sachs' GS Capital Partners**, had $1 billion in revenue in 2012 and more than 1 million customers. Cardinal Health borrowed $1.3 billion to finance the deal. But the cost is worth it, apparently, as *The Wall Street Journal* reported AssuraMed will represent about 1% of Cardinal's total sales but its profits margins are higher.

Cardinal Health was advised on financial matters related to this transaction by **Bank of America Corp. Wachtell Lipton Rosen & Katz** provided legal guidance to Cardinal Health. Clayton, Dubilier and GS Capital were advised by **JP Morgan Chase & Co.**, **Goldman Sachs Group**. Legal assistance was provided by **Debevoise & Plimpton LLP**. The deal is expected to close in April. □

The Month in M&A at a Glance: Health Care Services, February 2013

Sector	Deal Volume	Combined Price
Other	3	$2,070,000,000
Long-Term Care	17	610,940,000
Home Health & Hospice	3	20,000,000
Hospitals	3	6,200,000
Physician Medical Groups	3	—
Behavioral Care	2	—
Labs, MRI & Dialysis	1	—
Managed Care	0	—
Rehabilitation	0	—
Total	32	$2,707,140,000

IPO News

The near-moribund health care IPO market showed signs of life in February with some million-dollar deals. The largest of those is coming from global contract research firm **Quintiles Transnational Holdings Inc.** The filing with the SEC outlined plans to go public and hopes of raising $600 million, which would make its current owners, **Bain Capital** and **TPG Capital**, somewhat happy. **Barclays**, **JP Morgan** and **Morgan Stanley** are serving as joint lead book-running managers. **BofA Merrill Lynch**, **Citigroup**, **Deutsche Bank Securities**, **Goldman, Sachs & Co.** and **Wells Fargo Securities** are serving as book-running managers for the offering. **Robert W. Baird & Co. Inc.**, **William Blair** and **Jefferies** are serving as lead co-managers and **Piper Jaffray** and **UBS Investment Bank** are serving as co-managers for the offering.

The former Canadian pharma company formerly known as **Protox**, now called **Sophiris Bio** and now based in San Diego, California, announced it was seeking $75 million from a U.S. IPO to finance two pivotal Phase 3 trials for its lead drug, PRX302, an experimental treatment for benign prostatic hyperplasia, or enlarged prostate. **Citigroup** and **Leerink Swann** are acting as joint book-running managers for the offering. **Stifel Nicolaus** and **Lazard Capital Markets** are co-managers.

Another biopharma company is hoping to make waves on Wall Street. **Tetraphase Pharmacueticals, Inc.** of Watertown, Massachusetts, also filed with the SEC, hoping to raise $86 million. The company recently completed a successful Phase 2 trial of its latest product, eravacycline, an intravenous broad spectrum antibiotic, and has two other candidates in the pipeline. Barclays and **BMO Capital Markets** are acting as joint book-running managers. Stifel Nicolaus, **JMP Securities** and **Needham & Company** are acting as co-managers in the offering.

Ambit Biosciences is hoping to raise about $58 million in an offering designed to fund a Phase 3 trial for its AML drug, quizartinib. This is the second IPO attempt for the biotech company and the time is probably more propitious than it was the first time, back in 2010, when Ambit tried to raise $86 million but withdrew its IPO. VC funding filled in the gaps as recently as last fall, when the company recieved $25 million from **Orbimed**, **Aisling Capital**, **Apposite Healthcare**, **GIMV**, **GrowthWorks**, **Forward Ventures**, **MedImmune Ventures**, **Radius Ventures** and **Roche Ventures**. Some of those backers will participate in the IPO.

(continued from page 5)

credibly wealthy," Moloney said. "Doctors today want to provide a service and have a career and be able to go home at night. And large group practices can facilitate that." So can large public companies dedicated to a specific practice area, or specializing in contracting with hospitals and payers.

The MEDNAX Story

As noted, some companies made it through the turbulent 1990s by focusing on particular physician specialties. One example is Pediatrix Medical Group, Inc., founded in 1979 as a single neonatology group. In 1991, it began providing services for pediatric cardiology and pediatric intensive care physicians. It branched out into a new field in 2007, when it acquired its first anesthesia practice to start the American Anesthesiology unit. MEDNAX was established in 2009 as the parent company of the two units.

Since that time, MEDNAX has been on an acquisition tear, acquiring both pediatric practices (including neonatologists, pediatric cardiologists and surgeons, maternal-fetal specialists) and anesthesiology practices around the country. Together with pediatric practices acquired pre-2009, the company now employs more than 2,000 physicians in 34 states and Puerto Rico. More than 1,475 are anesthesiologists.

In 2012, MEDNAX reported revenue growth of 14.4%, to $1.82 billion with net income growth of more than 10% to $240.9 million. Cash flow from operations grew approximately 20%, to $326 million. Without breaking out dollar figures on each acquisition, the company reported spending more than $450 million in 2012. It reports having about $400 million on hand for acquisitions this year, the majority expected to go to anesthesiology practices.

Although MEDNAX does not say how it evaluates anesthesiology practices, those are generally larger than neonatology practices so would cost more, presumably. For example, a 10-doctor neonatology practice would be considered large, while an anesthesiology practice the same size would be considered on the small side.

On an early January analyst call, founder and CEO Roger Medel, MD, reported the company had a "full pipeline" of acquisition prospects, adding, "Obviously we're going to try to do as many deals as we can and that make sense, that are logical for us."

Why would doctors in these practices, particularly higher-paid anesthesiologists, elect to go with a public parent, rather than a local hospital or other entity? Back to greed and fear, it seems. "MEDNAX always uses cash as currency," said Mains. "The problem with some of the deals in the 90s is they used stock as currency. And when the stock went down in value, you not only had guys who weren't working as hard, they were really pissed off, too."

Although its specialties include pediatric cardiologists and maternal-fetal specialists, these largely office-based doctors refer a lot of mothers and babies to neonatal intensive care units (NICUs). And as office-based doctors, they have their own billing and collections systems and personnel, as well as those to deal with managed care companies. "One of the things MEDNAX brings to the table is they'll take over the billing, the collecting and the managed care contracting. Typically they do a better job with the collections and the contracting," said Mains.

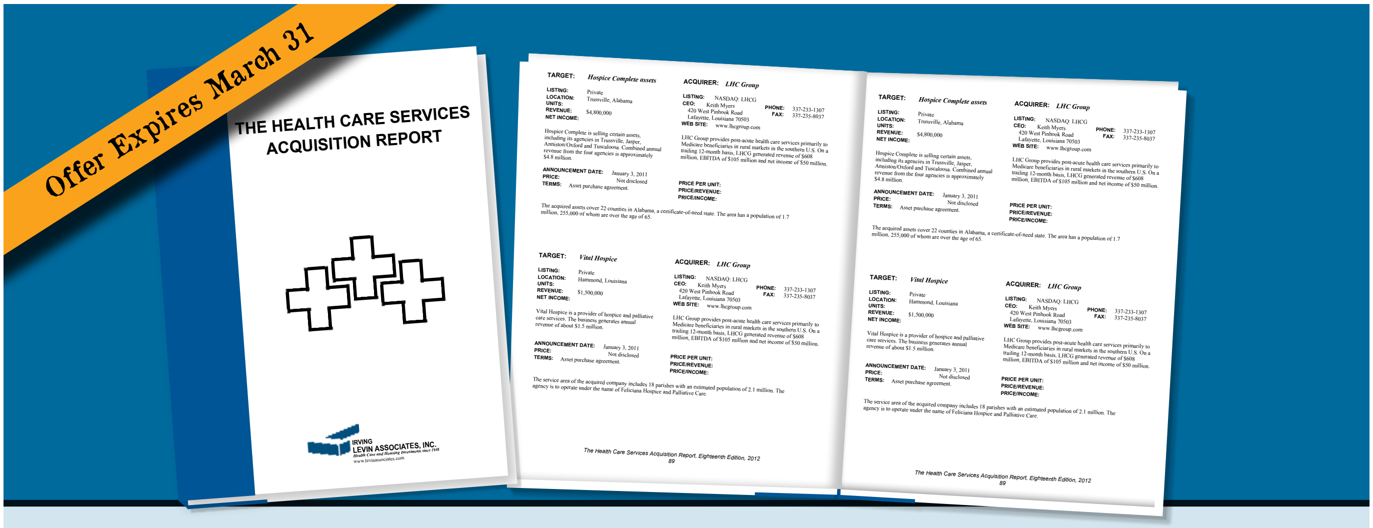
But not everyone sees MEDNAX as a vital part of the health systems of the future. Cain's Moloney expects to hear less talk of hospitals and more about health systems, although it will take seven to 10 years to get to a better model of care.

"I think the vast majority of doctors will either be owned by health systems or they will be in other very tightly integrated models of health systems, in five years' time. There will be some specific specialties that can avoid doing that, and neonatologists may be one of them. But neonatology will ultimately become part of a broader system, and I think independent organizations like MEDNAX are unlikely to be important providers 10 years' out." But there will always be babies. □

MEDNAX Acquisitions by Specialty, 2009 to 2013

	2009	2010	2011	2012	2013
Pediatrics	8	12	5	8	1
Anesthesiology	1	2	3	8	1

Source: Irving Levin Associates, March 2013



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