



## Q1 2011 DIALYSIS INDUSTRY UPDATE

### Industry Update

The first quarter of 2011 saw continued M&A activity in the dialysis sector. After a recent refinancing that raised \$825 million in capital, DaVita acquired DSI Renal for \$690 million. The deal featured a premium valuation of 11x EBITDA and \$86K/patient. With few middle market providers left, Provident is not surprised to see large strategics paying higher multiples for the remaining chains. Fresenius was also active this quarter, purchasing International Dialysis Centers for \$649.5 million. In addition to continued interest from strategic buyers, we would not be surprised to see financial buyers become active in the middle market space in 2011. Private equity firms have continuously been drawn to the dialysis sector for its steady growth and attractiveness as platform investments. 2011 should continue to be an opportunistic year for any private companies seeking a sale or recapitalization.

On April 1, 2011, providers were happy to see the CMS reverse their 3.1% payment cut that had previously gone into effect on January 1, 2011. Although industry players were already optimistic about a possible reversal, the announcement should provide relief and erase investor uncertainty. In its decision, CMS cited the incremental savings that resulted from more clinics signing up for an immediate transition to the bundled payment rate rather than a gradual phase-in over a four year period (87% actual vs. 43% projected). While providers could potentially find difficulty adjusting to the new bundled payment system in a timely manner, the overall result will be positive. DaVita, for example, could experience as much as \$70 million in additional revenue from the cut, almost all of which flowing to pre-tax income.

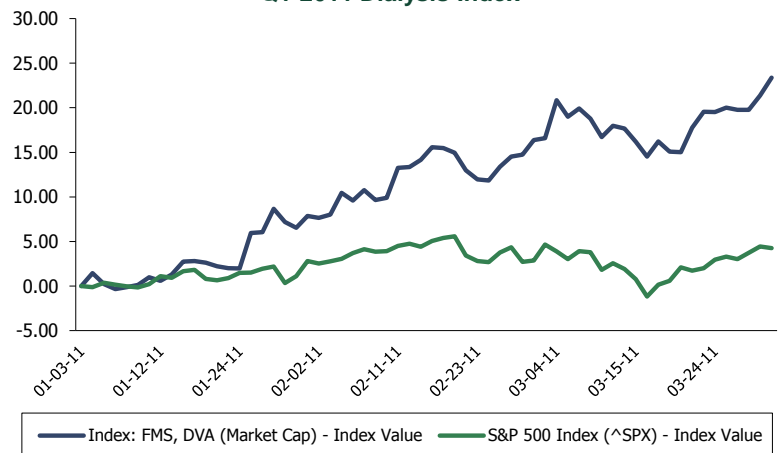
### Top Strategic Players to Watch

- **American Access Care, LLC** (Private)
- **American Renal Associates** (Private)
- **DaVita, Inc.** (NYSE: DVA)
- **Fresenius Medical Care AG & Co.** (NYSE: FMS)
- **Reliant Renal Care** (Private)
- **Renal Advantage, Inc.** (Private)
- **U.S. Renal Care** (Private)

### PRIVATE EQUITY FIRMS INTERESTED IN THE SECTOR

Private Equity Firm	Dialysis Company	Investment Date
KRG Capital Partners	Liberty Dialysis	2010
Bain Capital	Liberty Dialysis	2010
Centerbridge Partners	American Renal Associates	2010
Lindsay Goldberg	Ambulatory Services of America	2008
CIT Group	National Renal Alliance	2007
Ferrer Freeman & Co.	Reliant Renal	2007
Cressey & Company	U.S. Renal Care	2006
Centre Partners	DSI Holding Company	2006
Welsh, Carson, Anderson & Stowe	Renal Advantage	2005
Pamlico Capital	American Renal Associates	2004/2005
LLR Partners	American Renal Associates	2004/2005

### Q1-2011 Dialysis Index



Ticker	Price	52wk High	EV/Rev	EV/EBITDA
<b>FMS</b>	\$67.52	\$70.39	2.09x	10.36x
<b>DVA</b>	\$85.51	\$88.08	1.87x	9.81x

### RECENT TRANSACTIONS

Month	Acquirer	Target Company	Details
February 2011	DaVita	DSI Renal	DaVita has entered into a definitive agreement to acquire DSI Renal for approximately \$690 million, subject to adjustments. DSI currently operates 106 dialysis centers serving approximately 8,000 patients and is generating annualized revenue of approximately \$360 million. This acquisition introduces DaVita to several new geographies and makes them a more effective competitor in selected areas. Through this acquisition, DaVita will be able to bring the broader line of chronic kidney disease services to DSI patients.
January 2011	Fresenius Medical Care	International Dialysis Centers	Fresenius Medical Care has entered into a definitive merger agreement to acquire International Dialysis Centers (IDC) from Euromedic International for \$649.5 million. IDC treats over 8,200 hemodialysis patients, predominantly in central and Eastern Europe, and operates 70 clinics in nine countries. IDC will bring in additional revenue of \$180 million and the deal is expected to be accretive within one year. Fresenius made this acquisition in search of faster growth in more fragmented emerging markets. The deal is expected to close in the first half of 2011.