



**PRIVATE EQUITY HEALTHCARE UPDATE Q2-2009**

**ACTIVITY SUMMARY**

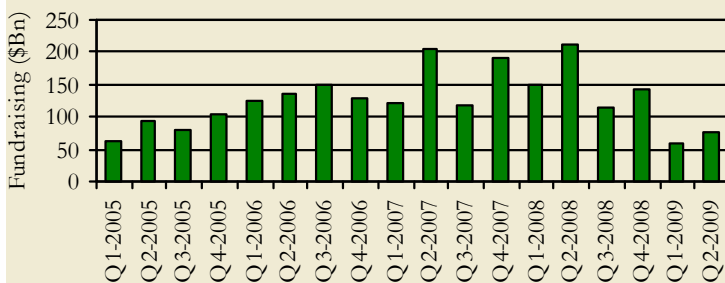
Private equity mergers and acquisitions deal volume continued to plunge in the second quarter of 2009, decreasing by about 15% from last quarter to \$15.1 billion from 174 transactions. The greatest cause of the decline has been the ongoing financial crisis which has forced many private equity groups to the sidelines. Financial sponsors accounted for just 3.5% of announced transactions in the first half of the year, which is the lowest such percentage since the first half of 2000.

According to John Gabbert, CEO & Founder of Pitchbook, private equity investors are continuing to wait for the investment climate to improve while shifting focus “to middle-market deals, using a healthier amount of equity where private equity’s operational and financial expertise can make a difference.” The decrease is not due to a lack of capital, however. As shown in the chart below, fund raising actually increased in the second quarter with 82 funds raising an aggregate of over \$76 billion. With over \$400 billion in dry powder, available capital levels are at an all time high.

The lack of volume stems more from the challenging deal making environment, prompting private equity sponsors to spend more time focusing on portfolio companies. In a survey released by the Association for Corporate Growth, nearly 7 out of 10 private equity professionals are spending significantly more time with portfolio companies: working on strategy, looking for add-ons, and negotiating financing commitments. The survey further found that while there is an expected increase in activity led primarily by distressed sellers and bargain seeking private equity groups, without an improvement in the economy and loosening of the credit markets, the situation is not likely to change.

Middle market healthcare executives, on the other hand, remain optimistic as they begin to determine the impact of the new administration’s planned healthcare reform. In a recent healthcare industry report, specialty finance firm CIT Group revealed that 60% of middle market healthcare executives expect revenue to grow over the next 12 months. These companies continue to borrow at a steady pace as they prepare for the government’s healthcare reforms. While they remain realistic about the current economy, they are more immune to it than other industries and see the growth opportunities in the government’s focus on electronic medical records and preventative care.

**GLOBAL PRIVATE EQUITY FUNDRAISING**



**SELECT TRANSACTIONS**

| Investor                         | Target                          | Details   |
|----------------------------------|---------------------------------|---|
| Black Canyon Capital             | JDC Healthcare                  | <i>June</i> – Black Canyon Capital completed a recapitalization of JDC Healthcare, in partnership with the company’s owner and founder, Dr. David Alameel, and management. Founded over 42 years ago, JDC is a Dental Practice Management with 23 offices targeting the Hispanic community throughout Texas.  |
| Water Street Healthcare Partners | Blue Ridge Medical              | <i>May</i> – Through its portfolio company, Sarnova, Water Street Healthcare Partners acquired Blue Ridge Medical, a national supplier of pharmaceuticals to the EMS community. Sarnova is the nation’s leading specialty distributor of health care products in the emergency medical services and was recapitalized by Water Street in 2008.  |
| The Riverside Company            | Dementia Care Specialists       | <i>May</i> – The Riverside Company purchased Dementia Care Specialists as an add-on acquisition for its current portfolio company Crisis Prevention Institute. Dementia Care Specialists offers its training to professional therapists as well as the rest of the administrative and nursing staff of long-term care facilities and has trained more than 5,000 professionals since its inception. |
| Housatonic Partners              | Arcadia Resources, HME Business | <i>May</i> – Housatonic Partners, through its portfolio company Pacific Pulmonary, acquired part of the HME business of Arcadia Resources. The deal allowed for Arcadia to completely exit the HME business and focus on their core competencies. The sale was split between Pacific Pulmonary in California and Aerocare Holdings in Florida for a total of \$11.2 million.                        |
| ComVest                          | NationsHealth                   | <i>April</i> – ComVest agreed to acquire and take private NationsHealth, a Florida based home delivery provider of diabetes supplies, insulin pumps, medications, and other medical products. The transaction is valued at approximately \$3.4 billion, or \$0.12 per NationsHealth share and is expected to close by Q3 2009.  |
| High Road Capital Partners       | Accentus                        | <i>April</i> – High Road Capital acquired Accentus, a rapidly growing Medical Transcription Services provider. The Company provides a full range of Medical Transcription and Healthcare Information Management services. The acquisition was sought to help fuel a higher rate of growth in the rapidly expanding medical transcription industry.  |