



Q2-2011 DIALYSIS INDUSTRY UPDATE

Major Transaction Recap – What's Next?

A little over a year ago, the dialysis sector saw a couple of high profile private equity deals in which Liberty Dialysis and American Renal Associates both received new financial backing. US Renal Care then continued the flurry of deal volume and multiples in the dialysis industry with their purchase of then-public Dialysis Corporation of America (DCAI) for approximately 12x TTM EBITDA. From here the whirlwind continued with Fresenius completing a half dozen deals internationally, DaVita absorbing DSI Renal, and Liberty Dialysis putting their capital to use with the acquisition of Renal Advantage, Inc.

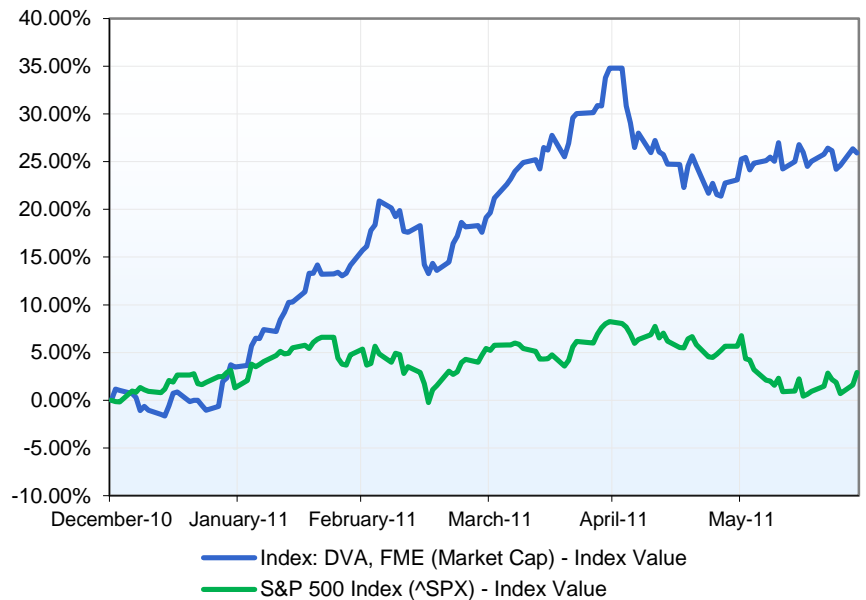
With all of the top level consolidation and significant levels of PE investment and success, it was in this past quarter that US Renal and their collection of financial backers (including Cressey & Co., Salix Ventures, and SV Life Sciences) reportedly sought to take advantage of the frenzy and explored a sale of the Company. However, as reported by peHUB, this process ultimately was met with lukewarm valuations and eventually was scrapped in favor of a large shareholder dividend.

The macro-level takeaway from the last 18 months is that, for the most part, the industry has reached a pause in regards to top-level consolidation. A majority of the top strategic acquirers have undergone a significant change and have a period of integration to focus on. What can likely be expected now more than before is the stress towards small to middle market acquisitions by these groups as they look to focus their efforts on strengthening their geographic footprints and also preparing to take advantage of the bundling opportunities that are coming to light.

M&A Update

The dialysis industry has significantly outperformed the S&P500 over the last six months, especially so in the last quarter. This quarter shows the giants of the industry, DaVita and Fresenius, reaping the profits of an unwavering commitment to their aggressive growth strategies. Due to the pace of the acquisitions in the past quarter, both companies have seemed to focus more on integration as indicated by the minimal M&A activity and their substantially amplified stock performance.

The other factor affecting the limited M&A activity in the past quarter is the rolling out of Center for Medicare & Medicaid Services' (CMS') legislation on bundling payments. Worries of profit erosion have caused a shift in thinking for top acquirers to focus on more strategic acquisitions as opposed to the large-scale deals which require a more serious level of change and integration. From a private equity perspective, although the industry remains highly attractive, the bundling requirements have created a tangible benefit for seeking out platform investments that are fully established, multi-location companies that also provide a high quality of care as the 2014 benefits to quality are fast approaching. The demographics of the industry continue to show long term viability and growth, and that those who position themselves effectively during this period will have a competitive advantage over their rivals as many firms will be slow to react to the forthcoming regulatory modifications.



Ticker	Price	52wk High	EV/Rev	EV/EBITDA
FME	\$51.46	\$53.10	2.3x	11.52x
DVA	\$86.61	\$89.58	1.85x	9.77x

NOTEWORTHY TRANSACTION

Month	Acquirer	Target Company	Details
June 2011	DaVita, Inc.	Ministry Health Care, Inc.	DaVita, Inc. has acquired Ministry Health Care, Inc.'s dialysis unit which operates nine outpatient dialysis facilities and four services at local hospitals in Wisconsin. All 145 Ministry dialysis employees will become DaVita employees. Pre-transaction, DaVita operated 40 facilities in Wisconsin and through this acquisition DaVita will be able to bring their broader line of chronic kidney disease services and expertise to greater serve dialysis patients across the state. No financial terms of the transaction were disclosed.