



Q3-2009 HEALTH PLAN INDUSTRY UPDATE

M&A ACTIVITY UPDATE

Questions regarding Healthcare Reform continue to stall M&A activity in the Health Plan industry. With the Senate Finance Committee's recent rejection of the public option for any legislature, however, we expect to see activity to return to form in the upcoming two quarters. With a few deals involving some of the largest providers (UnitedHealth, Health Net, and PacificSource), as well as a landmark deal in the PPO/TPA sector (Multiplan acquiring Viant), there is newfound life in the sector. Two of the most attractive areas for acquisitions amongst the largest strategic companies continue to include Medicare Advantage plans and Medicaid HMOs due to competitive bidding which will undoubtedly force consolidation. As Washington attempts to clear up some of the uncertainty surrounding their reform efforts, the idea that private insurance is a thing of the past has all but been put to rest. While major insurers continue to make acquisitions in ancillary lines of business in order to diversify their offerings, strength in market share as well as continued lobbying efforts in our nation's capital are amongst the two highest priorities by acquirers throughout the industry. Although PHP does not foresee a return to the levels of consolidation in the past, there remains great opportunity for large providers to grow strategically and rapidly through acquisition.

TOP STRATEGIC PLAYERS

- **Aetna, Inc.** (NYSE: AET)
- **Humana, Inc.** (NYSE: HUM)
- **Healthspring, Inc.** (NYSE: HS)
- **WellPoint, Inc.** (NYSE: WLP)
- **Health Net, Inc.** (NYSE: HNT)
- **AMERIGROUP Corp.** (NYSE: AGP)
- **UnitedHealth, Inc.** (NYSE: UNH)
- **CIGNA, Inc.** (NYSE: CI)
- **Coventry Health Care, Inc.** (NYSE: CVH)
- **Molina Healthcare, Inc.** (NYSE: MOH)
- **Universal American Corp.** (NYSE: UAM)
- **WellCare Health Plans, Inc.** (NYSE: WCG)

RECENT TRANSACTIONS

Month	Acquirer	Company Acquired	Details
August 2009	Bakersfield Memorial Hospital and Mercy Hospitals of Bakersfield	GEMCare Health Plan	Bakersfield Memorial Hospital and Mercy Hospitals of Bakersfield, members of Catholic Healthcare West, and GEMCare Health Plan and Managed Care Systems, LP are forming GEMCare Mercy Memorial Health System (GMMHS). The new organization will provide coordinated and integrated care to patients and purchasers of medical services in Kern County. GEMCare Health Plan is a Knox-Keene and CMS licensed senior Medicare Advantage Plan. The plan has more than 6,400 Medicare-eligible members and is the second largest Medicare Advantage Plan in Kern County. Financial terms of the transaction were not disclosed.
August 2009	Multiplan, Inc.	Viant, Inc.	Multiplan, Inc., a portfolio company of The Carlyle Group, announced the acquisition of Viant, Inc., portfolio company of Welsh Carson Anderson and Stowe. Details of the transaction were not disclosed, and the deal is expected to close by year-end.
August 2009	PacificSource Health Plans	Primary Health, Inc.	PacificSource Health Plans announced that it has completed the acquisition of Primary Health, Inc. of Boise, Idaho. Through this transaction, Primary Health Network, Inc. and Riverside Benefit Administrators, Inc. have become wholly owned subsidiaries of PacificSource Health Plans, and PacificSource acquired a majority interest in Idaho Physicians Network, Inc. Primary Health Medical Group operates independently of Primary Health, Inc. and is not part of the acquisition. PacificSource funded the stock purchase with cash, but other terms were not disclosed.
July 2009	Dental Network of America	DenteMax, subsidiary of Blue Cross Blue Shield of Michigan	Dental Network of America has acquired DenteMax, an independent subsidiary of Blue Cross Blue Shield of Michigan. Financial terms of the transaction were not disclosed.
July 2009	Magellan Health Services	First Health Services Corp., subsidiary of Coventry Health Care, Inc.	Coventry Health Care, Inc. has completed its previously announced sale of First Health Services Corp., its fee-based Medicaid service business, to Magellan Health Services Inc. for \$110 million. First Health is expected to generate \$60 million in revenue and \$7.5 million in profit for Magellan from closing to year-end.
July 2009	UnitedHealthcare, Inc.	Health Net, Inc.	UnitedHealthcare, Inc. and Health Net, Inc. announced that UnitedHealthcare has agreed to acquire Health Net of the Northeast's licensed subsidiaries and will work with Health Net to renew the customers currently enrolled in those plans with UnitedHealthcare as those customers reach their annual renewal dates. The transaction, subject to regulatory approvals and other closing conditions, is expected to close within 12 months. Transaction details include a \$350 million cash payment up front, with a 160 million over the next two years that equals around \$510 million in total consideration. Further earnouts could at maximum bring an extra \$120 million if all of HealthNet's members renew with UNH.