



Q3-2011 DIALYSIS INDUSTRY UPDATE

M&A Update

The third quarter brought about a continuing top-down trend in consolidation as we saw the completion of the DaVita acquisition of DSI Renal and the announcement of another top-5 merger as Fresenius announced its intended acquisition of Liberty Dialysis, which had only 11 months earlier merged with Renal Advantage. While federal regulators forced DaVita to divest 30 clinics in order for their deal to be approved, and it is likely that Fresenius will have to visit a larger forced divestiture in order to complete the Liberty deal, the industry as a whole continues to push towards a two provider system with only a handful of multi-facility chains left independent.

Looking out at the next few quarters for the sector from a merger and acquisition standpoint, there seems to be significant opportunity for the strengthening of some of the MDO's to grow through either acquisition or de novo methods. With favorable bundling reimbursements putting a premium on well run companies, there is expected to be a large push for many of the well capitalized and best positioned MDO's to build themselves over the next 12-18 months and be an attractive target when the next wave of landmark transactions hits. Expect to see groups like US Renal Care, American Renal Associates, Ambulatory Services of America, National Renal Alliance, Reliant Renal, and Renal Ventures push for both single and multi-facility acquisitions in key geographies as each company's respective private equity backers look to maximize the value of their portfolio with a target of an exit in the next couple of years. Also, as in the case of Frazier Healthcare and New Enterprise Associates, there continues to be strong interest in private equity groups looking to move into the space due to many of the attractive demographics and components.

NOTEWORTHY TRANSACTIONS

Month	Acquirer	Target Company	Details
September 2011	DaVita	DSI Renal	DaVita has completed its acquisition of DSI Renal for approximately \$689 million. As per regulatory conditions to close, DaVita subsequently agreed to sell 30 of the newly acquired facilities. DSI previously operated 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 and helps them continue along the acquisition pace of their primary competitor, Fresenius. Further financial details of the transaction were not disclosed.
September 2011	Dialysis Newco, Inc., portfolio of Frazier Healthcare and New Enterprise Associates	DaVita, 30 facilities from DSI Renal acquisition	DaVita has agreed to divest 30 of the locations it was acquiring through its purchase of DSI Renal. A new entity, formed by Frazier Healthcare and New Enterprise Associates and led by former executives of Odyssey Healthcare, will pay \$91 million for the clinics that produce an annual revenue stream of approximately \$82.7 million. Following this transaction, Newco will likely continue expanding through acquisitions as a new private equity backed company enters the dialysis mix.
September 2011	Renal Ventures Partnership	Trinity Regional Medical Center	Renal Ventures Partnership has agreed to acquire the dialysis clinics and renal programs of Trinity Regional Medical Center and enter into a joint venture with management. The two clinics and subsequent programs service more than 70 patients in the state of Iowa. Renal Ventures is a Colorado based company with financial backing from Goldman Sachs to help fund continued acquisitions and growth. No financial terms of the transaction were disclosed.
August 2011	Fresenius Medical Care	Liberty Dialysis	Fresenius Medical Care announced its acquisition of Liberty Dialysis from KRG Capital Partners, Bain Capital Ventures, and a number of other financial backers for approximately \$1.7 billion. Liberty had recently merged with Renal Advantage, Inc. less than a year ago and created at the time the third largest US provider behind Fresenius and DaVita. Liberty will bring approximately \$1 billion in annual revenues to Fresenius, and further separates Fresenius from the competition as the largest dialysis provider in the US. The deal is subject to regulatory approvals. No further financial terms of the transaction were disclosed.
August 2011	Fresenius Medical Care	American Access Care	Fresenius Medical Care has agreed to acquire American Access Care, a leading management company of vascular access centers and interventional radiology centers. The deal was announced alongside of Fresenius' announcement of the acquisition of Liberty Dialysis. American Access Care will bring approximately \$175 million in annual revenues to Fresenius, and also provide an aggressive push into a line of business outside of their traditional dialysis services. The transaction is valued at \$390 million and is subject to regulatory approvals. No further details of the transaction were disclosed.
July 2011	Fresenius Medical Care	International Dialysis Centers	Fresenius Medical Care has completed its acquisition of International Dialysis Centers (IDC) from Euromedic International for \$645.5 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. Further financial details of the transaction were not disclosed.