



Q4-2009 HEALTH PLAN INDUSTRY UPDATE

M&A ACTIVITY UPDATE

With the final quarter of 2009 showcasing only a handful of M&A deals in the health plan industry, Provident is looking forward to 2010 in which there is a great expectation of increased consolidation throughout the sector. Among each form of coverage (Medicare Advantage, Medicaid, Commercial) we see significant opportunities for buyers and sellers to join forces and provide better services to their customer base, along with value to shareholders. Below is a breakdown of where Provident expects to see new and continued consolidation:

Medicare Advantage (MA): The sector has undoubtedly been affected by the uncertainty related to healthcare reform, bringing to light the questions of valuation for these books of business. While there has been a significant drop over the last 12-18 months both in number of transactions completed and per-life valuation levels, the lack of acquisition opportunities has presented buyers with challenges to increase their market share. While we expect to see multiple distressed MA deals completed over the next twelve months, Provident is extremely confident that buyers will aggressively pursue some of the largest privately held MA plans, resulting in 2-3 landmark transactions in 2010.

Expected Aggressive Buyers:

- Healthspring, Inc.
- Humana, Inc.
- Universal American Corp.

Medicaid: Of government-aided plans, Medicaid is possibly the most primed for consolidation due to the inevitable increase in the number of insureds. With the legislation still under construction, there is significant interest from the largest strategic buyers looking to expand their footprints both within current focus areas as well as into new geographic areas across the country. With a large number of not-for-profit organizations and healthcare-system plans operating in the Medicaid industry, privately-held for-profit plans will be considered extremely valuable in the upcoming year.

Expected Aggressive Buyers:

- AMERIGROUP Corp.
- Centene Corp.
- Molina Healthcare, Inc.

Commercial: This sector has seen the most consolidation over the last year, and similar transactions are expected to continue as hospital and health-system owned plans are divested as to generate capital and reduce inherent risk. With multiple deals either announced or completed in 2009 of such variety, Provident expects buyers to continue pursuing these types of acquisitions to increase their commercial portfolios.

Expected Aggressive Buyers:

- Blue Cross Blue Shield Entities
- Coventry Health Care, Inc.
- UnitedHealthcare, Inc.

NOTEWORTHY TRANSACTIONS

Month	Acquirer	Company Acquired	Details
December 2009	UnitedHealthcare, Inc.	Health Net, Inc.	UnitedHealthcare, Inc. (UNH) announced that it has completed the previously announced acquisition of the Health Net, Inc. entities in CT, NY, and NJ in addition to the membership renewal rights for the Health Net Life health care business in the Northeast. The transaction, which has received all the regulatory approvals, is valued at approximately \$510 million. The acquisition will enhance UNH's market share in the NY metropolitan area by adding Health Net's 578,000 members in the Tri-State Area. The divestiture will contribute approximately \$2.7 billion of revenue to UNH.
October 2009	SCAN Health Plan	Medcore Medical Group	Medcore Medical Group, a Medicare Advantage Health Plan run by Omni IPA Medical Group, has entered into a partnership with SCAN Health Plan to transition the approximately 2,100 members into SCAN. No financial terms of the transaction were disclosed.
October 2009	Coventry Health Care, Inc.	Preferred Health Systems, Subsidiary of Via Christi Health System, Inc.	Coventry Health Care, Inc. has agreed to acquire Preferred Health Systems Inc., a subsidiary of Via Christi Health System, Inc. in Wichita, KS, which has approximately 100,000 commercial group insurance plan enrollees. The carrier also provides administrative services for commercial self-funded plans with 20,000 enrollees. Financial terms of the transaction were not disclosed.
September 2009	Blue Care Network	Physicians Health Plan of Michigan, Subsidiary of Sparrow Health System	Sparrow Health System of Lansing, MI is selling the membership of Physicians Health Plan of Mid-Michigan (PHP) to the Blue Care Network of MI, an HMO with over 600,000 members based in Southfield, Michigan. PHP is an HMO founded in 1980 with 80,000 members, including 18,000 in Medicaid managed care. As a smaller HMO, PHP would have had difficulty weathering competition and the recent economic recession by itself.