



Q1-2014 DIALYSIS SERVICES INDUSTRY UPDATE

M&A Update

In the first quarter, the dialysis services industry saw consolidation across a wide spectrum of verticals. While consolidation in the sector has historically been focused on the dialysis clinic space, the rarity of large independent clinic operators and increased regulatory scrutiny towards large-scale acquisitions by LDOs has caused strategic acquirers to be creative in pursuing opportunities outside their core areas of focus. As an example, Fresenius' Helios subsidiary acquired 40 hospitals and 13 outpatient facilities from Rhoen-Klinikum, an acute care hospital group in Germany. Groups have also particularly been active in pursuing deals that can enhance efficiencies in the delivery of dialysis services. For instance, Baxter International invested \$10 million in Xenetic Biosciences, an anemia drug developer, in a strategic move that reflects the ongoing industry focus towards cost-minimization in order to hedge against future reimbursement changes. While there will continue to be a high level of interest in the clinic space, as evidenced by DCI's acquisition of Rubin Dialysis Centers, it is likely that we will also see a rapid pace of consolidation in adjacent verticals such as vascular access, CKD clinics, and nephrology practice management. In particular, groups with an experienced management team, attractive patient demographics & geography, and a growing financial and patient profile can all expect to see a high level of interest as both strategic and private equity buyers look to capitalize on positive macroeconomic trends, such as the aging population and increasing prevalence of chronic diseases, that point to significant future growth opportunities in the dialysis services sector.

Publicly Traded Dialysis Services Company Performance

Company (Ticker)	Price	52wk High	Market Cap	TEV/EBITDA
DaVita HealthCare Partners (DVA)	68.07	70.68	14.5B	9.5x
Fresenius (FMS)	34.88	37.01	21.0B	10.0x
Baxter (BAX)	72.93	75.68	39.5B	11.5x

Regulatory Update

In February, DaVita reached an agreement with U.S. government officials to settle an investigation related to physician joint ventures on dialysis clinics for \$389 million. As part of the settlement, DaVita will unwind 11 joint ventures that consist of 28 clinics through a buyout or sale at fair market value and enter into a corporate integrity agreement. Despite the investigation and subsequent settlement, DaVita executives noted that the recent developments would not have a material impact on the company's existing footprint of clinics (70+% of which are company-owned) or its financial performance.

NOTABLE TRANSACTIONS

Month	Acquirer	Target Company	Details
February 2014	Dialysis Clinic, Inc.	The Hortense & Louis Rubin Dialysis Centers	Dialysis Clinic, Inc. has announced its intent to acquire The Hortense and Louis Rubin Dialysis Centers, a three center provider of dialysis services based in New York that serves approximately 420 patients. With the transaction, Rubin Dialysis will look to utilize DCI's EMR systems to improve connectivity and implement a single-purpose laboratory to improve tracking and trending of test results for its patients. The transaction is subject to regulatory approval and no financial terms of the deal were disclosed.
February 2014	Fresenius	Rhoen-Klinikum	Fresenius has purchased the majority of Germany-based Rhoen-Klinikum for roughly \$4 billion. The acquisition will add 40 hospitals and 13 outpatient facilities to Fresenius' Helios division, thereby strengthening the Company's position as Europe's largest hospital operator and complimenting its core outpatient dialysis business.
January 2014	Baxter International	Xenetic Biosciences	Baxter International announced that it has invested \$10 million into its portfolio company, Xenetic Biosciences. Xenetic develops drugs for treatment of anemia in pre-dialysis patients afflicted with chronic kidney disease. With the transaction, the Company will look to build upon its drug development pipeline, particularly in the orphan drug space.
January 2014	Nikkiso America	Baxter International's CRRT Business	Nikkiso America has completed its previously announced acquisition of Baxter International's Continuous Renal Replacement Therapy (CRRT) business, which includes a portfolio of products used to treat ICU patients in need of blood purification after acute kidney injuries. The financial terms of the transaction were not publicly disclosed. As one of the largest manufacturers of blood purification products, Nikkiso will utilize the acquisition to expand its reach into the acute renal therapy space.