

GREAT AMERICAN GROUP ADVISORY & VALUATION SERVICES

Healthcare Monitor
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Introduction

Welcome to the first issue of the *Healthcare Monitor* from Great American Group Advisory & Valuation Services (“GA”). This publication will provide you with market values and industry trends for medical equipment, supplies, and pharmaceuticals. The enclosed information represents a composite of GA’s industry expertise, well-respected industry publications, liquidation and appraisal experience, and contact with industry personnel. Due to the current regulatory shifts taking place in the medical industry, timely reporting is necessary to understand a changing marketplace. GA strives to contextualize important indicators in order to provide a more in-depth perspective of the market as a whole.

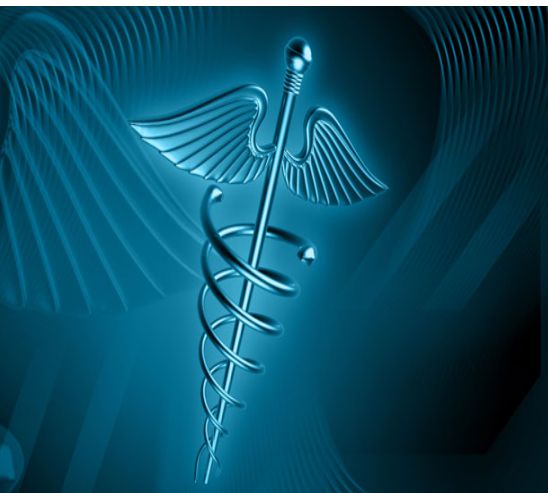
The *Healthcare Monitor* relates information covering medical equipment, supplies, and pharmaceuticals, including industry trends, demand factors, and their relation to our valuation process. GA provides our customer base with a concise document highlighting the core issues of the healthcare industry. Should you need any further information, please feel free to contact the GA Business Development Officers and other staff members listed in this and all *Healthcare Monitor* issues. GA welcomes the opportunity to make our expertise available to you in every possible way.

Trends in Recovery Values

Year-over-year recovery values on collateral updates for the most part indicate that NOLVs are trending upward in the healthcare industry. Individual appraisals, however, do show some variance. Appraisals have shown increases and decreases of up to five percentage points, largely due to factors specific to each appraisal.

Recovery values could be impacted by efforts to overturn the healthcare bill, for industry forecasting is currently based in part on implementation. In the long-run, as healthcare costs continue to outpace inflation and an aging population increases demand, health care industry recovery values should maintain their generally positive current trend.

GA internally tracks recovery ranges for a variety of healthcare industry products from within the medical equipment, supplies, and pharmaceuticals segments, but we are mindful to adhere to your request for a simple reference document. Should you need any further information or wish to discuss recovery ranges for a particular segment, please feel free to contact your GA Business Development Officer.



ABOUT GREAT AMERICAN GROUP

Great American Group is a leading provider of asset disposition solutions and valuation and appraisal services to a wide range of retail, wholesale and industrial clients, as well as lenders, capital providers, private equity investors, and professional services firms. In addition to the *Healthcare Monitor*, GA also provides clients with industry expertise in the form of monitors for the metals, building materials, food, automotive, and chemicals industries, among many others.

Headquarters:

21860 Burbank Blvd.
Suite 300 South
Woodland Hills, CA 91367
800-45-GREAT
www.greatamerican.com

Atlanta
Boston
Chicago
Dallas
London
Los Angeles
New York
San Francisco

EXPERIENCE

In recent years, GA has formulated bids and conducted liquidations for several hospitals including St. Vincent Catholic Medical Center, Mercy Medical Center, and Franciscan Medical Center. In addition, GA has worked with and appraised numerous companies within the healthcare industries, including several industry leaders. While our clients remain confidential, they include market-leading manufacturers and distributors of consumables, supplies, devices, and equipment from medical branches including biomedical, surgical, pharmaceutical, and dental. GA has appraised consumable products including syringes, needles, beds, bandages, incubators, fetal monitors, medical scrubs, ventilators, defibrillators, and surgical gloves and masks. GA has also appraised local, regional, and national pharmacy script files in conjunction with appraisals and liquidations, and maintains a database of scripts sold over the last five years. GA's extensive list of healthcare-related appraisal experience includes:

- A developer and marketer of specialty pharmaceuticals and medical devices primarily focused on acute and surgical applications, but also used in medical specialties including interventional radiology, ophthalmology, and tumor biopsy.
- A national biomedical equipment provider, whose product range includes beds, blood pressure monitors, ventilators, and incubators.
- An industry-leading distributor of vendor- and company-branded dental supplies with a more than 80-year history in the industry.
- A distributor of vendor- and company-branded non-surgical medical scrubs, lab coats, nurses' uniforms, and medical shoes.
- A large producer of generic pharmaceuticals, as well as a contract manufacturer for other pharmaceutical companies, with customers including major retailers, pharmacy chains, pharmaceutical distributors, and managed care organizations.
- A 25-location regional pharmacy chain focused on prescription drug business for local customers.
- A national distributor of a wide assortment of medical and dental supplies, sourced domestically and internationally, including surgical gloves, wound care items, diagnostic testing kits, and other physician supplies.

In addition to our vast liquidation and appraisal experience, GA maintains contacts within the healthcare industry that we utilize for insight and perspective on recovery values.

APPRAISAL & VALUATION TEAM

BUSINESS DEVELOPMENT

Mike Marchlik

National Sales & Marketing Director
mmarchlik@greatamerican.com
818-746-9306

Drew Jakubek

Vice President - Southwest Region
djakubek@greatamerican.com
972-265-7981

Daniel Levene

Vice President - Western Region
dlevene@greatamerican.com
818-746-9327

Ryan Mulcunry

Senior Vice President - Northeast Region, Canada & Europe
rmulcunry@greatamerican.com
617-692-8310

Fred Raccosta

Senior Vice President - New York/Mid-Atlantic Region
fraccosta@greatamerican.com
646-381-9204

David Seiden

Executive Vice President - Southeast Region
dseiden@greatamerican.com
770-551-8114

Bill Soncini

Vice President - Midwest Region
bsoncini@greatamerican.com
312-777-7945

OPERATIONS

Ken Bloore

Chief Operating Officer
kbloore@greatamerican.com
818-884-3737

Jorge Ventura

Senior Associate, Healthcare Specialist
jventura@greatamerican.com
818-746-9336

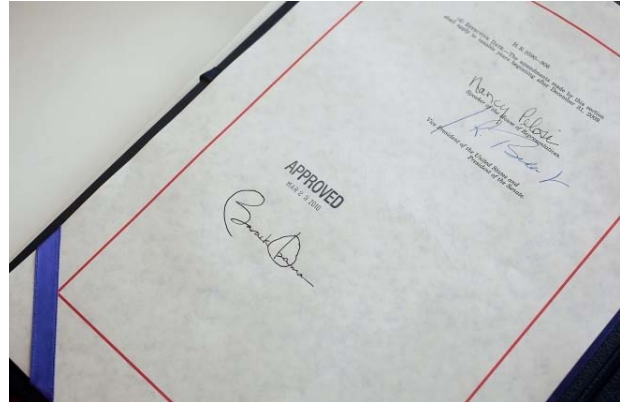
OVERVIEW

The healthcare industry is undergoing historic changes. The landmark healthcare reform bill passed last year has begun the most substantial overhaul of the industry in decades, in large part by guaranteeing access to medical insurance for roughly 30 million currently uninsured Americans and expanding technology and training for medical personnel. The repercussions of these changes are only starting to be felt and understood, and whether healthcare costs ultimately rise or fall remains to be seen.

Legislative repeal of the act is, at the moment, highly unlikely. Republicans have taken a symbolic vote to repeal the law, but Democrats' majority in the Senate coupled with President Obama's veto will prevent full-scale repeal from moving forward. Revisions may be in store: Republicans are trying to build consensus around alternatives, while Democrats have indicated they are open to debating the bill.

Legal challenges to the bill are mounting in what appears to be an inexorable march to the Supreme Court. Two federal judges have ruled that all or part of the law is unconstitutional, while two have upheld the law. All observers say the debate will only find resolution before the nation's highest court.

The healthcare industry is also feeling the effects of an inert economy. Even insured patients are putting off surgical and other procedures due to economic uncertainty and high medical costs, leading to less demand for medical devices and lower hospital admissions. Orthopedic surgery for hip and knee replacements are among the treatments that have seen the biggest decline, according to Reuters. In response, companies are increasing co-pays and other payments and providing less coverage.



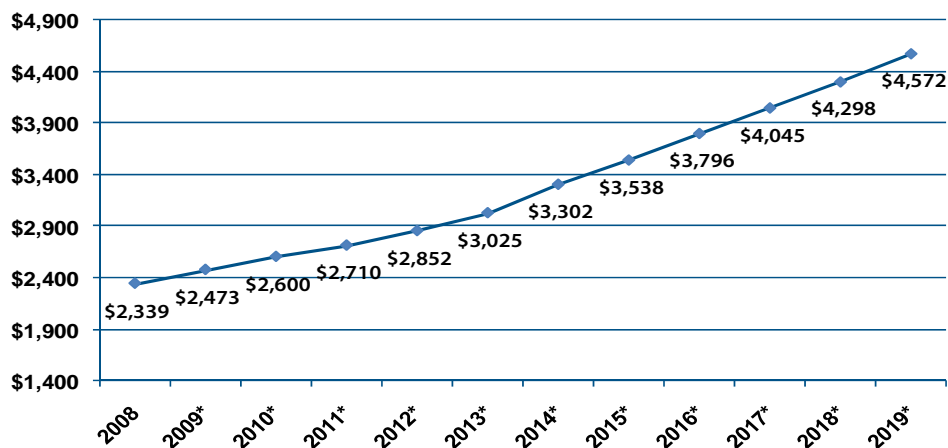
The following table illustrates government-tracked economic indicators that suggest healthcare costs are continuing to rise:

Indicator	% Change
Revenue for insurance carriers	5.1%
Consumer prices for medical care	3.4%
Consumer prices for medical care	2.7%

Despite the rising costs, the pharmaceutical industry has remained highly profitable, as U.S. prescription drug prices have increased 1% to 4% annually. Nevertheless, leading companies including Novartis and Roche are cutting jobs and scaling back. Others may follow suit, as the industry tries to deal with increased regulation, competitions from generics, and pricing pressure from insurers and governments.

National Health Expenditures Annual Percent Change 2008 to 2019 \$ in billions

* projected



RECENT APPRAISAL TRENDS

OVERVIEW

As the economy shifts from recovery to expansion, analysts widely predict that demand is expected to surge for all healthcare segments. In addition to growth due to the broad economic recovery, demand is expected to grow as the Baby Boomer generation ages and the healthcare reform bill expands the pool of insured patients. Tighter regulations, however, may increase costs.

Recovery values, however, remain difficult to predict. Despite the overall economic improvement in economic conditions, year-over-year collateral updates have seen NOLVs move up or down by as much as five points. Individual appraisals depend highly on a range of factors particular to each company, including the company's specific mix of inventory, sales trends, and achieved gross margin. High or low weeks of supply can also drive values. As the industry does not strictly follow commodity price trends, these factors contribute to more variation in recovery values.

MEDICAL EQUIPMENT AND DEVICES

Hospitals kept buying medical devices such as spinal disks and pacemakers during the recession and could ramp up purchases during the recovery, according to IBISWorld and other research groups. U.S. demand for implantable medical devices such as cardiac stents and spinal implants will increase 8.3% annually to reach \$49 billion in 2014, according to The Freedonia Group, Inc. ("Freedonia"), while BCC Research predicts the global market for cardiovascular surgical devices will increase 8.7% annually to \$48 billion in 2015.

In the past 12 months GA has conducted appraisals with manufacturers of pharmaceuticals and medical devices, as well as with distributors of biomedical equipment. Gross recovery rates for finished goods such as sutures, needles, catheters, and syringes were generally strong, while equipment such as beds, ventilators, incubators, and defibrillators trended lower, and raw materials such as purchased needles, suture material, and steel wire were weaker still.



The robust growth forecasted for medical equipment bodes well for that segment's recovery values, while increased healthcare demand could boost recovery values for finished goods and raw materials, which otherwise face flat projections.

MEDICAL SUPPLIES AND APPAREL

Demand for medical supplies has recently been flat, growing just 0.8% in 2010 to approximately \$144 billion, according to IBISWorld, Inc. But current research suggests the market is due for a surge. Freedonia predicts U.S. demand for disposable medical supplies will increase 4.1% annually to more than \$79 billion in 2013. The medical apparel industry is also expected to grow as the ranks of nurses and medical assistants increase. Well-known brands such as Cherokee and Baby Phat are increasing their offerings, while Dickies and Skechers both recently started scrubs apparel lines.

Within the past year, GA has appraised a leading distributor of medical apparel and conducted liquidations of pharmacies whose inventory mixes include medical supplies, as well as conducted analyses with its liquidation group. Recovery values for a mix of inventory including non-surgical medical scrubs, lab coats, nurses' uniforms, and medical shoes trended slightly up. Recovery rates were strongly dependent on participation of all major customers, with rates substantially lower if major customers were absent.

If demand rises for medical supplies as forecasted, recovery values could follow. Medical apparel may also see boosted recoveries as healthcare employment expands, with particular demand for fashion-oriented items.

RECENT APPRAISAL TRENDS

PHARMACEUTICALS

As the economy has struggled, so have prescription sales. According to IMS Health, prescription sales growth prior to the downturn ranged between 10% and 12% annually, but dropped to the low single digits at the height of the recession. Analysts predict sales to drop further going into 2011 as jobless rates remain at high levels and consumers lose their healthcare coverage. Looming healthcare reforms make the future somewhat uncertain, but the industry should be bolstered in part by an aging population's expanding need for prescription and over-the-counter medications.

According to IBISWorld, revenue for the \$164 billion pharmaceutical manufacturing industry grew 2.2% in 2010. Accelerated expansion is expected for 2011, fueled by the millions of Americans who will gain insurance under the healthcare reform bill, along with the expansion of bio-similar drugs. Growth will be moderated, however, by tax increases and discounts implemented to fill the Medicare coverage gap.

GA has conducted appraisals with large and mid-sized manufacturers and distributors of pharmaceuticals in the past 12 months. Gross recovery values for finished goods with orders or contracts, such as custom box-packaged injection vials, trended highest, while pharmacy goods, which include prescription drugs and regulated medicines, trended lower. Unpackaged finished goods posted the lowest recovery values. Expanding the number of insured Americans could expand demand for prescription drugs and possibly boost recovery values for pharmaceuticals.



MONITORING POINTS

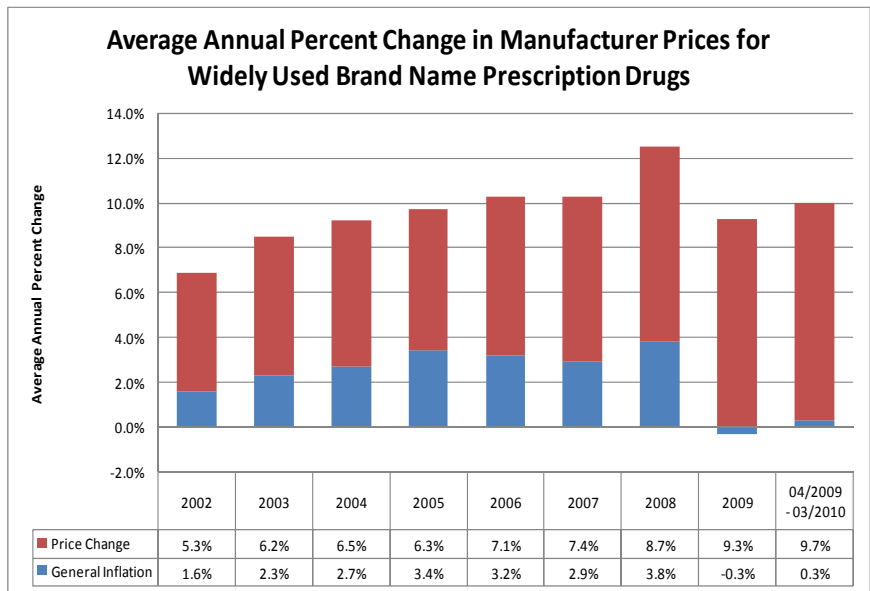
Monitoring Point	Impact
Monitor healthcare costs.	Rising healthcare costs will cause more consumers to postpone elective operations and procedures and force others to forego needed treatment, as well as spurring hospitals to reduce costs, cut expansion, and postpone technology upgrades, reducing demand for healthcare products.
Monitor the legal and legislative battles over the healthcare reform bill.	If all or part of the healthcare reform bill is declared unconstitutional by the U.S. Supreme Court, the law's impact on healthcare providers could be significantly altered or entirely voided. Similarly, if Republican lawmakers are successful in repealing or fundamentally altering the bill, the law would have altered or limited impact.
Monitor aged and returned inventory, as well as expiration dates and return rates.	Outdated equipment, expired or near-expiration pharmaceuticals and other aged inventory has little or no recovery value, nor do recalled products.

INDUSTRY TRENDS

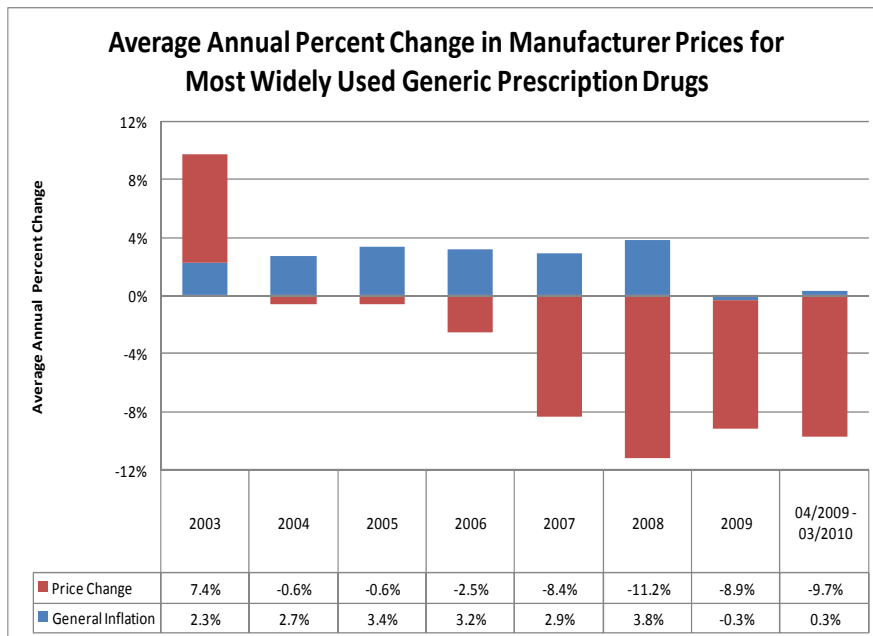
PHARMACEUTICAL PRICES

With the U.S. economy still in recovery, inflation has shrunk to almost zero, yet prices for brand name prescription drugs continued to climb in 2010, according to a study released in May 2010 by the AARP Public Policy Institute. Average manufacturer price increases for brand name and specialty drugs widely used by Medicare beneficiaries continued to outpace price increases for other consumer goods for the 12 months ended March 2010, the most recent period for which data is available.

Prices for generic prescription drugs, meanwhile, have fallen as far as brand name drug prices have risen, continuing a trend of falling prices began in 2004, according to the study. Most of those decreases were concentrated in a small number of drugs, as the majority of generic drug products saw no price changes during the 12-month period studied. Overall, brand name, specialty, and prescription drugs experienced an average annual rate of increase of 5.3% for the year ended the first quarter of 2010



Source: AARP Public Policy Institute



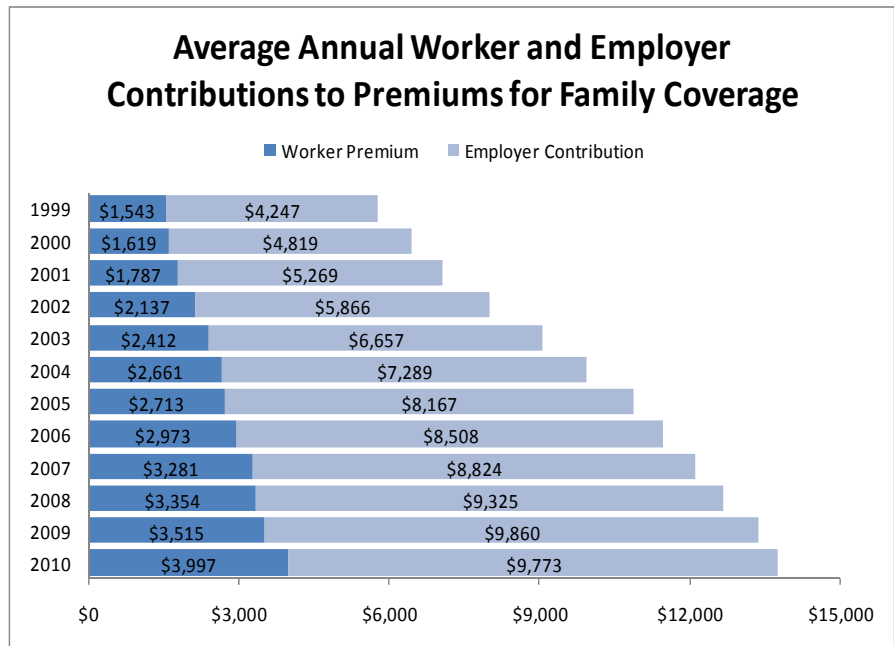
Source: AARP Public Policy Institute

The price increases come amid growing consolidation in the world biopharma industry. Swiss drug maker Novartis finalized one takeover in 2010 and was planning a second in January, while France's Sanofi-Aventis SA has an offer pending for a U.S. company and a Pfizer subsidiary is attempting a separate buyout. The *Wall Street Journal* credits outside pressure on future revenues for the consolidation activity, citing a wave of expiring patent protections. The newspaper notes that diversified companies typically get higher valuations, which adds to the pressure.

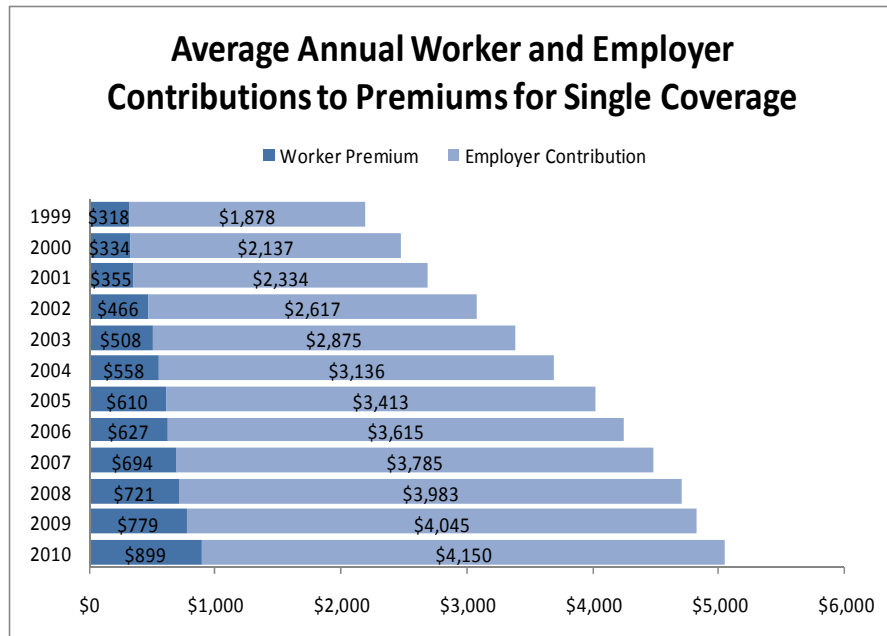
INDUSTRY TRENDS

HEALTH INSURANCE PREMIUMS

Health insurance premiums for the average U.S. worker climbed an estimated 14% to reach \$3,997 for family coverage in 2010, according to a study released in September by the Kaiser Family Foundation (“Kaiser”) and the Health Research and Educational Trust (“HRET”). Workers are now shouldering more of the total burden, with the share of premiums paid by workers rising three percentage points to 30%.



Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits



Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits

The increases in employee contributions mark the first time in the 12-year history of the Kaiser-HRET survey that the employee share has risen more than three percentage points in a single year, as well as the first time the employee share of family coverage has topped 30%. More increases may be on the way. A survey released in August by the National Business Group on Health, an employer coalition, found two-thirds of large employers planned to increase the proportion that employees contribute to their premiums next year.

INDUSTRY TRENDS

HEALTH CARE SERVICES AND COMMODITIES PRICING

Prices of health care services and commodities posted modest but steady gains for the 12 months ended September 2010, even as the consumer price index stays nearly flat, according to Consumer Price Index (“CPI”) and Producer Price Index (“PPPI”) data tracked by the Bureau of Labor Statistics (“BLS”). All CPI medical categories tracked by the BLS posted year-over-year percent increases at least two-and-a-half times the economy-wide CPI, with hospitals and related services reporting the largest annual percentage change.



REFERENCE SHEET

Consumer Price Index for Health Care Commodities and Services – September 2010

Category	Index	Annual % Change	Monthly % Change
CPI (overall)	218.439	1.1%	0.1%
Medical care	390.616	3.4%	0.06%
Medical care commodities	315.804	2.6%	0.03%
Medical care services	413.807	3.7%	0.06%
Professional services	330.149	2.9%	0.03%
Hospitals and related services	614.667	7.3%	1.5%

Source: www.bls.gov

Producer Price Indexes for Health Care Commodities and Services – September 2010

Industry	Index Base	Index			% Change to September 2010 from:	
		May 2010	August 2010	September 2010	September 2009	August 2010
Selected health care industries	12/06	110.3	110.9	110.8	2.6%	-0.1%
Offices of physicians	12/96	129.0	129.9	130.0	2.5%	0.1%
Medical and diagnostic laboratories	12/03	108.2	108.4	108.4	0.0%	0%
Home health care services	12/96	129.3	129.5	129.6	0.9%	0.1%
Blood and organ banks	06/06	112.4	112.8	112.7	1.3%	-0.1%
Hospitals	12/92	172.8	173.7	173.4	3.0%	-0.2%
Nursing care facilities	12/03	125.4	125.9	125.8	1.6%	-0.1%
Residential mental health facilities	12/03	128.7	130.1	129.9	3.6%	-0.2%

Source: www.bls.gov