

HY Healthcare Weekly

IPPS Update; HMA Downgrade to Neutral

- **CMS recently released its proposed Medicare rates for FY10, which were slightly weaker than we had expected.** The proposed net update for general acute care hospitals is -0.5%, substantially lower than the 23-year average of +3.6% (see figure on page 2), and the first time the update would be negative.
- **We are downgrading HMA to Neutral from Overweight.** Every 10-point change in HMA's dollar price equates to about a half turn change in its market value of leverage. We think HMA now has a below-average risk profile, but is not yet into the best (lowest-risk) quartile. But since HMA's stabilization and early signs of turnaround have been recognized in bond levels, a Neutral recommendation seems more appropriate at this time.
- **HY healthcare has underperformed by about 80 bps since our last update [link].** Since April 28, healthcare has returned about 2.1%, while the market overall has returned about 2.9%.
- **Healthcare has slightly outperformed the market YTD.** Since the beginning of the year, healthcare has returned 17.8%, while overall high yield index has returned about 17.5%.
- **The yield give-up to be in healthcare is about 350 bps (11.3% vs. 14.8%).** There are now four sectors in high yield that are the same or richer than healthcare: Cable/Wireless (10.1%), Wireline/Telecom (10.8%), Food/Drug (11.2%), and Utility (11.3%).

Monthly Best Performers

Bond	1-Apr-09	1-May-09	Price Chg	Δ %
THC 9.250% 2015	76.50	91.25	14.75	19.3%
HCA 9.625% 2016	79.25	92.75	13.50	17.0%
SCAFF 10.000% 2017	53.00	65.00	12.00	22.6%
HCA 6.500% 2016	66.00	77.50	11.50	17.4%
BMET 10.375% 2017	84.00	95.50	11.50	13.7%

Monthly Worst Performers

Bond	1-Apr-09	1-May-09	Price Chg	Δ %
USON 10.750% 2014	92.00	92.75	0.75	0.8%
SHPRS 11.000% 2012	35.00	36.50	1.50	4.3%
DVA 7.250% 2015	96.00	97.75	1.75	1.8%
ACCINC 10.500% 2013	73.50	75.50	2.00	2.7%
HGR 10.250% 2014	100.00	102.50	2.50	2.5%

Source: J.P. Morgan.

Healthcare

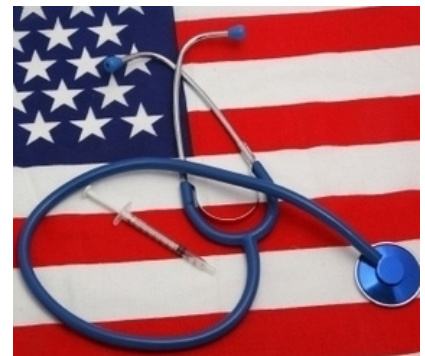
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J.P. Morgan Securities Inc.

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See page 12 for analyst certification and important disclosures.

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Quote of the Week

“...when it comes to Medicare and Medicaid, where the taxpayers are footing the bill...we have an obligation to get those costs under control.”

– President Obama, *New York Times* interview published May 3, 2009

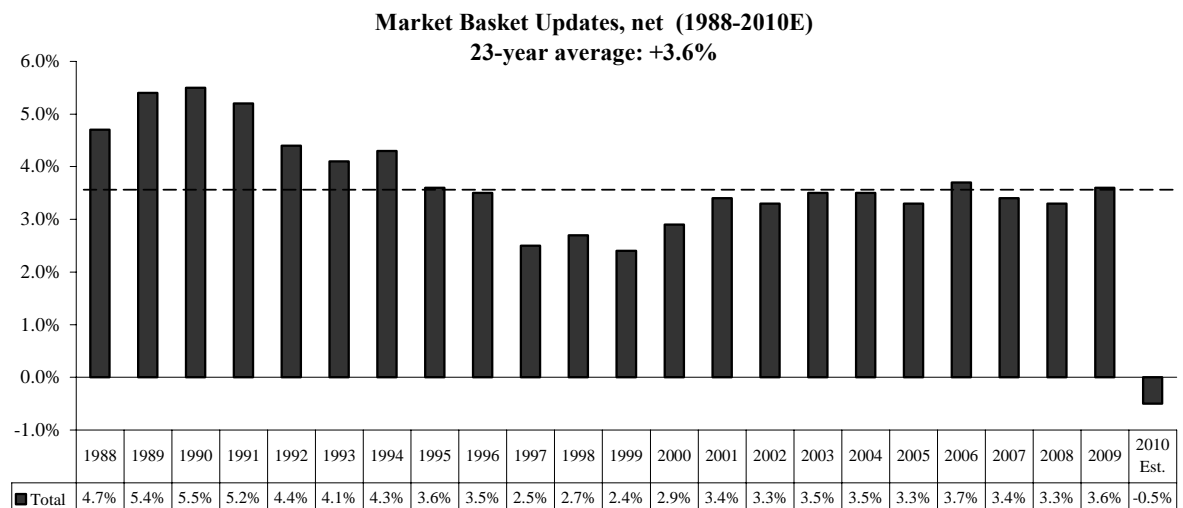
Expansion of coverage is the No. 1 healthcare priority for this Administration. Cost-reduction efforts likely will prompt more lobbying and Congressional opposition. For that reason, many of the cost-reduction ideas floated by CMS and Congress may be left out of legislation to extend coverage, likely to be voted on by October 15, 2009.

Recent Events

On May 1, CMS released its proposed Medicare rates for FY10, which were slightly weaker than we had expected. The net update for hospitals is -0.5%, substantially lower than the 23-year average of +3.6% (see figure below). Two items were particularly surprising to us. First, on the positive side, LTACs would receive a 2.8% net increase for FY10. Second, and on the negative side, rural hospitals are expected to receive negative 1.3% vs. negative 0.4% for their urban peers.

As a reference point, last year, the actual market basket rate increased by 60bps from the initially proposed level (from 3% to 3.6%). But we are not counting on an increase in the proposed rates for hospitals to maintain profitability. 1Q/09 earnings have shown us that some hospitals can flex their cost structures to mitigate revenue headwinds coming from government reimbursement. HCA and Tenet showed EBITDA margin levels up several hundred bps y/y on negligible volume growth.

Figure 1: Market Basket Updates, Net (1988-2010E)



Source: CMS and J.P. Morgan.

Volume Update

Hospital volume is trending negative—some noticeably worse than others. With only Vanguard and IASIS left to report, the volume trend is clearly softer than last year. Even adjusted admissions have turned negative as outpatient numbers have not increased enough to offset the inpatient decline. Many issuers, however, have cited calendar issues, including an extra day in 2008, to suggest that 1Q/09 volume was not as poor as it appears.

Figure 2: Volume Comparisons

Same Facility Volume Comparison - Calendar Quarters						
	1Q/08	2Q/08	3Q/08	4Q/08	1Q/09	Period Avg
Vanguard	2.7%	2.4%	1.5%	-0.2%		1.6%
CYH	3.8%	2.3%	2.3%	-0.9%	-2.4%	1.0%
Tenet	1.0%	1.9%	1.7%	-0.2%	-1.3%	0.6%
HCA	0.8%	1.3%	0.4%	0.5%	-0.9%	0.4%
UHS	0.8%	0.8%	-0.8%	-0.4%	-1.1%	-0.1%
IASIS	-1.3%	0.4%	-0.9% *	-3.7% *		-1.4%
HMA	0.4%	-3.8%	-3.3%	-0.2%	-0.2%	-1.4%
LPNT	0.3%	-2.3%	-2.4%	-2.3%	-6.0%	-2.5%
Reported Co. Avg	1.1%	0.4%	-0.2%	-0.9%	-2.0%	0.3%

Same Facility Adjusted Volume Comparison - Calendar Quarters						
	1Q/08	2Q/08	3Q/08	4Q/08	1Q/09	Period Avg
Vanguard	2.7%	2.5%	2.9%	1.0%		1.9%
UHS	1.5%	0.6%	-1.1%	-1.0%	0.0%	1.8%
IASIS	0.5%	2.4%	1.3% *	-0.3% *		1.5%
Tenet	1.6%	2.8%	3.5%	1.6%		1.4%
HMA	1.2%	-1.5%	-1.0%	1.1%	0.1%	0.7%
HCA	1.1%	2.0%	1.9%	1.8%	1.9%	0.6%
CYH	3.8%	2.4%	2.5%	-0.2%	-4.9%	0.5%
LPNT	0.1%	-1.1%	-1.0%	-0.7%	-1.9%	-0.3%
Reported Co. Avg	1.6%	1.3%	1.1%	0.4%	-1.0%	1.3%

*IASIS had hurricane impact in both quarters, although modest

Source: Company reports and J.P. Morgan.

HMA: Downgrading to Neutral from Overweight

Every 10-point change in HMA's dollar price equates to about a half turn change in its market value of leverage.

Figure 3: Market Leverage for HMA

Price of 6.125%	Market Leverage
\$100.00	4.8x
\$90.00	4.3x
\$80.00	3.8x
\$70.00	3.3x
\$60.00	2.9x

Source: Company reports and J.P. Morgan.

Bonds have not traded for a few days (last traded about 88); we figure the next trade could be close to 90. This indicates 4.3x market value of leverage—up from about 3.0x at the lows last December—and an offered yield in the low 8s. As a point of reference, the J.P. Morgan BB index has an average yield of closer to 9.5%.

We think HMA now has a below-average risk profile, but is not yet into the best (lowest-risk) quartile. But since HMA's stabilization and early signs of turnaround have been recognized in bond levels, a Neutral recommendation seems more appropriate at this time.

We are removing HMA from our "Focus List" published March 24, 2009 in conjunction with our downgrade to Neutral from Overweight. Since the publication of the 1Q/09 AFL, HMA 6.125% Senior Notes have generated a total return of 12.3%, underperforming the J.P. Morgan HY Domestic Index total return of 12.8%, and outperforming the Healthcare subset of the index which returned 7.5%.

Figure 4: Hospital Relative Value

Ticker	Rating	Coupon	Maturity	Price	YTW	STW
CYH	B3/B	8.875%	2015	99.50	8.98%	695bp
IAS	B3/CCC+	8.750%	2014	97.00	9.50%	746bp
HCA	B2/BB-	9.25%	2016	98.75	9.49%	640bp
HMA	BB-/BB	6.125%	2016	88.00	8.44%	642bp
THC	Caa1/B	9.25%	2015	93.50	10.79%	877bp
VANGUA	Caa1/CCC+	9.00%	2014	96.50	9.85%	786bp

Sources: Moody's, S&P, and J.P. Morgan.

Healthcare Earnings Calendar 1Q/09

Ticker	Company Name	Earnings Release Date	Earnings Release	Conf. Call Time (EST)	Conf. Call Dial-In No.	Access Code	Replay Dial-In No.	Access Code	Replay
BMET	BioMet	14-Apr	BMO	14-Apr 10:00 AM	888.400.7916	995005	3Q09 results		transcript
ELN	Elan	22-Apr	BMO	22-Apr 8:30 AM	888.434.1984		800.633.8284	21422058	transcript
MLTPLN	Multi-plan	22-Apr	NTS	22-Apr 10:00 AM					
ABC	AmeriSourceBergen	23-Apr	BMO	23-Apr 11:00 AM	651.291.0900		800.475.6701	995267	30-Apr-09
CYH	Community Health	23-Apr	AMC	24-Apr 11:30 AM	800.374.1773	91482639	800.642.1687	91482639	1-May-09
HCA	HCA	27-Apr	NTS	27-Apr 10:00 AM	877-795-3599		888-203-1112	8804133	4-May-09
UHS	Universal Health Services	27-Apr	AMC	28-Apr 9:00 AM	877.648.7971		800.642.1687	92651699	12-May-09
HGR	Hanger Orthopedic Group	27-Apr	AMC	28-Apr 9:00 AM	800.931.9710		800.642.1687	92331530	
HMA	HMA	27-Apr	AMC	28-Apr 11:00 AM	877.476.3476	94087768			transcript
DVA	DaVita	28-Apr	BMO	28-Apr 8:30 AM	800-399-4406	Davita 1Q09 Call			transcript
PSYS	Psychiatric Solutions	28-Apr	AMC	29-Apr 10:00 AM	913.312.6696		719.312.6696	8739453	transcript
AIQ	Alliance Imaging	29-Apr	AMC	30-Apr 8:30 AM	888.694.4676		800.642.1687	97002209	
PMC	Pharmerica	29-Apr	AMC	30-Apr 10:00 AM	866.700.7477	25197158	888-286-8010	35003118	
FMS	Fresenius	30-Apr	BMO	30-Apr 9:30 AM	718.354.1172	10 20 74 1			
Fres SE	Fresenius	30-Apr	BMO	30-Apr 9:30 AM	718.354.1172	10 20 74 1			
MYL	Mylan Labs	30-Apr	BMO	30-Apr 10:00 AM	877.440.5788				transcript
OCR	Omnicare	30-Apr	BMO	30-Apr 11:00 AM	888.634.8522	Omnicare			Online
LPNT	LifePoint	1-May	BMO	01-May 10:00 AM	212.231.2900		800.633.8284	21421803	transcript
HLS	HealthSouth	4-May	AMC	05-May 9:00 AM	866.406.5369	91485741	800.642.1687		19-May-09
THC	Tenet	5-May	BMO	05-May 10:00 AM	866.843-0890	8189542			
REABLE	Reable	7:35am 5-May	BMO	05-May 1:00 PM	877.864.4577	97023515	706.645.9291	97023515	7-May-09
SCI	Service Corp	6-May	AMC	07-May 9:30 AM	617.597.5344	11471384	617.801.6888	95864817	13-May-09
TEHEIN	Team Health	6-May	AMC	07-May 10:00 AM	888-290-3292		800-642-1687	98368310	14-May-09
USPI	United Surgical Partners Intl	7-May	AMC	07-May 10:00 AM	212.231.2900		800.633.8284	21422195	
USON	US Oncology	7-May	BMO	07-May 11:00 AM	877.615.1716	94943091			webcast
RSCR	Res-Care	7-May	AMC	08-May 9:00 AM	212.231.2920		800-633-8284	21422278	
BOL	Bausch & Lomb	10-May	Estimate						
VANGUA	Vanguard	11-May	AMC	12-May 11:00 AM	866-835-8907				
RURL	Rural/Metro	11-May	Estimate						
SHPRS	Spheris	13-May	AMC	14-May 8:00 AM	(480) 629-9786		(303) 590-3030	4060239	20-May-09
IAS	IASIS	15-May	Estimate	15-May 12:00 AM					
SELMED	Select Medical	15-May	Estimate	No Call					
MENTOR	National Mentor	15-May	Estimate						
IHSC	Insight Health	15-May	Estimate						
WCRXF.PK	Warner Chilcott	15-May	Estimate						
PTSAC	Catalent Pharma Solutions	15-May	Estimate						
EMS	AMR/Emcare (EMS)	15-May	Estimate						
CRCHEA	CRC Healthcare	15-May	Estimate						
SCAFF	Surgical Care Affiliate	15-May	Estimate						
UHOS	Universal Hospital Services	15-May	Estimate						
VWRINT	VWR Internations	15-May	Estimate						
ACCINC	Accellent	18-May	Estimate						
STEI	Stewart	9-Jun	Estimate						

Healthcare

Source: Company Reports, Streetevents, and Bloomberg.

BMO = before market opens; AMC = after market closes; NTS = no time specified; NA = Not Available.

Notes:

- *HCA Inc : HCA Only 5.0x Leveraged?*
- *Health Management Associates Inc. : Initiating With an Overweight*
- *HY Healthcare : Downgrading to Neutral from Overweight*
- *DaVita Inc: A Model of Stability*
- *HCA Inc: A Refresher on Relative Value-"Take Two"*
- *Hospitals: How Bad Can It Get? : A Closer Look at Historical Industry Data*
- *Biomet, Inc : Credit Downgrade to Neutral from OW on FX and Comp Valuations*
- *HCA : A Refresher on Rel Val and Debt Maturities*

Updates:

- *HY Healthcare Weekly : Swap CYH for HCA*
- *HY Healthcare Weekly : Company Contacts; Preliminary Earnings Calendar*
- *HY Healthcare Weekly : DVA, ELN, SCI, VWRINT; Pensions; and PIKs*
- *HY Healthcare Weekly : Upgrading BMET 10-3/8s, Initiated on HMA with an O/W*
- *HY Healthcare Weekly : Budget-Related Bumps; Initiating on Tenet's "New" Bonds*
- *HY Healthcare Weekly : The 2010 Budget; HLS, THC*
- *HY Healthcare Weekly : Community: Like a Rock; Bond Buybacks*
- *HY Healthcare Weekly : ELN, THC, VANGUA, Hospital Volume*
- *HY Healthcare Weekly: BMET – Updated Forecast; THC Exchange Offer*
- *HY Healthcare Weekly : THC Quick Take & More on PIKs*
- *HY Healthcare Weekly : CYH, BMET and the PIK Feature*
- *HY Healthcare Weekly : Elan: Upgrading to Overweight from Neutral*
- *HY Healthcare: Update : Hospitals: Investing in a Low-Multiple World*
- *HY Healthcare Update: CYH, CRCHEA, ELN, SHPRS*

HY Healthcare Dollar Price Tracker, Ranked by Δ m/m

Bond dollar price	1-Apr-09	1-May-09	Price increase (decrease)	
			Absolute Δ m/m	Absolute Δ y/y
THC 9.250% 2015	\$76.50	\$91.25	\$14.75	(\$1.25)
HCA 9.625% 2016	\$79.25	\$92.75	\$13.50	(\$13.00)
SCAFF 10.000% 2017	\$53.00	\$65.00	\$12.00	(\$26.00)
HCA 6.500% 2016	\$66.00	\$77.50	\$11.50	(\$7.00)
BMET 10.375% 2017	\$84.00	\$95.50	\$11.50	(\$4.25)
BOL 9.875% 2015	\$79.50	\$90.00	\$10.50	(\$11.50)
PTSAC 9.500% 2015	\$25.00	\$34.00	\$9.00	(\$58.75)
BMET 11.625% 2017	\$88.00	\$96.50	\$8.50	(\$2.00)
HCA 9.250% 2016	\$90.50	\$98.25	\$7.75	(\$6.75)
TEHEIN 11.250% 2013	\$87.00	\$94.50	\$7.50	(\$11.50)
VANGUA 9.000% 2014	\$88.00	\$95.25	\$7.25	(\$1.00)
CRCHEA 10.750% 2016	\$63.00	\$70.00	\$7.00	(\$32.50)
HCA 9.125% 2014	\$92.25	\$98.25	\$6.00	(\$5.75)
VWRINT 10.250% 2015	\$67.00	\$72.75	\$5.75	(\$22.50)
USPI 8.875% 2017	\$77.50	\$83.00	\$5.50	(\$15.75)
USPI 9.250% 2017	\$69.00	\$74.50	\$5.50	(\$23.00)
SCI 7.000% 2017	\$85.00	\$90.50	\$5.50	(\$5.25)
OCR 6.875% 2015	\$88.38	\$93.75	\$5.38	\$0.75
MENTOR 11.250% 2014	\$83.00	\$88.00	\$5.00	(\$15.00)
ELN 7.750% 2011	\$84.00	\$89.00	\$5.00	(\$5.00)
CYH 8.875% 2015	\$94.00	\$98.88	\$4.88	(\$3.00)
ELN 8.875% 2013	\$80.00	\$84.50	\$4.50	(\$14.00)
UHOS 8.500% 2015	\$89.00	\$93.00	\$4.00	(\$8.00)
HLS 10.750% 2016	\$98.00	\$102.00	\$4.00	(\$2.50)
BMET 10.000% 2017	\$99.50	\$103.50	\$4.00	\$1.50
IAS 8.750% 2014	\$94.50	\$98.25	\$3.75	(\$1.75)
AIQ 7.250% 2012	\$96.00	\$98.75	\$2.75	\$3.75
REABLE 10.875% 2014	\$74.00	\$76.50	\$2.50	(\$21.75)
HGR 10.250% 2014	\$100.00	\$102.50	\$2.50	\$0.00
ACCINC 10.500% 2013	\$73.50	\$75.50	\$2.00	(\$8.50)
DVA 7.250% 2015	\$96.00	\$97.75	\$1.75	(\$2.50)
SHPRS 11.000% 2012	\$35.00	\$36.50	\$1.50	(\$58.63)
USON 10.750% 2014	\$92.00	\$92.75	\$0.75	(\$6.00)
Max			\$14.75	\$3.75
Min			\$0.75	(\$58.75)
Median			\$5.50	(\$6.75)
Average			\$6.16	(\$11.77)

Sources: Company reports and J.P. Morgan.

Relative Value Analysis

Coupon	Description	Recommendation	Maturity	Ratings Moody's S&P	Current	Recent Quotes			YTW Date	Next Call Date		EBITDA LTM	EBITDA/ Interest LTM	Debt/ EBITDA LTM	Debt/ TEV
						Bid	Yield	Spread		Date	Price				
HOSPITALS AND RELATED															
AMR/Emcare Holdco															
10.000%	Sr Sub Nts	NR	15-Feb-15	B1/B	\$250	\$101.50	9.51%	794bp	15-Feb-13	15-Feb-10	\$105.00	\$239	5.7x	1.9x	25%
Community Health Systems Inc															
8.875%	Sr Nts	Hold	15-Jul-15	B3/B	\$2095	\$98.88	9.11%	683bp	15-Jul-15	15-Jul-11	\$104.44	\$1,556	2.2x	5.9x	83%
HealthSouth Corporation															
10.750%	Sr Nts	Buy	15-Jun-16	Caa1/CCC+	\$553	\$102.00	10.34%	784bp	15-Jun-16	15-Jun-11	\$105.38	\$340	1.5x	5.3x	61%
8.323%	Sr Nts	Buy	15-Jun-14	Caa1/CCC+	\$366	\$87.50	10.92%	nm	nm	15-Jun-09	\$103.00	\$340	1.5x	5.3x	61%
HCA, Inc.															
9.125%	2nd Lien	Buy	15-Nov-14	B2/BB-	\$1000	\$98.25	9.54%	740bp	15-Nov-14	15-Nov-10	\$104.56	\$4,851	2.5x	4.0x	62%
9.250%	2nd Lien	Buy	15-Nov-16	B2/BB-	\$3200	\$98.25	9.58%	699bp	15-Nov-16	15-Nov-11	\$104.63	\$4,851	2.5x	4.0x	62%
10.375%	2nd Lien	Buy	15-Nov-16	B2/BB-	\$1500	\$92.75	12.11%	951bp	15-Nov-16	15-Nov-11	\$104.81	\$4,851	2.5x	4.0x	62%
9.875%	2nd Lien	Buy	15-Feb-17	B2/BB-	\$310	\$100.00	9.87%	768bp	15-Feb-15	15-Feb-13	\$104.94	\$4,851	2.5x	4.0x	62%
8.750%	Nts	Buy	1-Sep-10	Caa1/B-	\$491	\$99.88	8.83%	823bp	1-Sep-10	nc	nc	\$4,851	2.5x	5.5x	84%
7.875%	Nts	Buy	1-Feb-11	Caa1/B-	\$273	\$98.00	9.13%	834bp	1-Feb-11	nc	nc	\$4,851	2.5x	5.5x	84%
6.950%	Nts	Buy	1-May-12	Caa1/B-	\$402	\$93.00	9.71%	843bp	1-May-12	nc	nc	\$4,851	2.5x	5.5x	84%
6.300%	Nts	Buy	1-Oct-12	Caa1/B-	\$500	\$89.00	10.20%	878bp	1-Oct-12	nc	nc	\$4,851	2.5x	5.5x	84%
6.250%	Nts	Buy	15-Feb-13	Caa1/B-	\$500	\$86.00	10.86%	930bp	15-Feb-13	nc	nc	\$4,851	2.5x	5.5x	84%
6.750%	Nts	Buy	15-Jul-13	Caa1/B-	\$500	\$86.00	11.00%	928bp	15-Jul-13	nc	nc	\$4,851	2.5x	5.5x	84%
5.750%	Nts	Buy	15-Mar-14	Caa1/B-	\$500	\$79.00	11.51%	955bp	15-Mar-14	nc	nc	\$4,851	2.5x	5.5x	84%
6.375%	Nts	Buy	15-Jan-15	Caa1/B-	\$750	\$79.00	11.50%	933bp	15-Jan-15	nc	nc	\$4,851	2.5x	5.5x	84%
6.500%	Nts	Buy	15-Feb-16	Caa1/B-	\$1000	\$77.50	11.34%	892bp	15-Feb-16	nc	nc	\$4,851	2.5x	5.5x	84%
7.690%	Nts	Buy	15-Jun-25	Caa1/B-	\$291	\$57.55	14.60%	1116bp	15-Jun-25	nc	nc	\$4,851	2.5x	5.5x	84%
7.500%	Nts	Buy	6-Nov-33	Caa1/B-	\$250	\$55.00	14.06%	1024bp	6-Nov-33	nc	nc	\$4,851	2.5x	5.5x	84%
Health Management Associates															
6.125%	Sr Nts	Hold	15-Apr-16	NR/BB-	\$400	\$87.50	8.55%	609bp	15-Apr-16	nc	nc	\$635	2.8x	4.8x	74%
iasis Healthcare															
8.750%	Sr Sub Nts	Buy	15-Jun-14	B3/CCC+	\$475	\$98.25	9.18%	714bp	15-Jun-14	15-Jun-09	\$104.38	\$270	3.7x	4.2x	65%
Psychiatric Solutions															
7.750%	Sr Sub Nts	NR	15-Jul-15	B3/B-	\$470	\$90.75	9.77%	749bp	15-Jul-15	15-Jul-10	\$103.88	\$315	4.2x	4.0x	57%
Spheris															
11.000%	Sr Sub Nts	Buy	15-Dec-12	Caa1/NR	\$125	\$36.50	51.24%	4974bp	15-Dec-12	4-Jun-09	\$102.75	\$29	1.5x	6.8x	85%
Team Health															
11.250%	Sr Sub Nts	NR	1-Dec-13	Caa1/B-	\$215	\$94.50	12.87%	1101bp	1-Dec-13	1-Dec-09	\$107.00	\$129	2.8x	4.8x	63%
Tenet Healthcare															
9.000%	Sr Sec Nts	Buy	1-May-15	Ba3/BB-	\$700	\$101.00	8.75%	674bp	1-May-14	1-May-12	\$104.50	\$732	1.8x	1.9x	25%
10.000%	Sr Sec Nts	Buy	1-May-18	Ba3/BB-	\$700	\$104.00	9.28%	658bp	1-May-17	1-May-14	\$105.00	\$732	1.8x	1.9x	25%
6.375%	Sr Nts	Hold	1-Dec-11	Caa1/B	\$85	\$90.00	10.94%	982bp	1-Dec-11	nc	nc	\$732	1.8x	6.6x	88%
6.500%	Sr Nts	Hold	1-Jun-12	Caa1/B	\$116	\$88.49	11.02%	971bp	1-Jun-12	nc	nc	\$732	1.8x	6.6x	88%
7.375%	Nts	Hold	1-Feb-13	Caa1/B	\$1000	\$90.50	10.51%	895bp	1-Feb-13	nc	nc	\$732	1.8x	6.6x	88%
9.875%	Sr Nts	Hold	1-Jul-14	Caa1/B	\$1000	\$92.50	11.85%	980bp	1-Jul-14	nc	nc	\$732	1.8x	6.6x	88%
9.250%	Sr Nts	Hold	1-Feb-15	Caa1/B	\$800	\$91.25	11.36%	918bp	1-Feb-15	nc	nc	\$732	1.8x	6.6x	88%
6.875%	Sr Nts	Hold	15-Nov-31	Caa1/B	\$500	\$60.00	12.08%	835bp	15-Nov-31	nc	nc	\$732	1.8x	6.6x	88%
Vanguard Health Systems															
9.000%	Sr Sub Nts	Hold	1-Oct-14	Caa1/CCC+	\$575	\$95.25	10.16%	805bp	1-Oct-14	1-Oct-09	\$104.50	\$283	2.5x	4.8x	73%
11.250%	Disc Nts	Buy	1-Oct-15	Caa1/CCC+	\$216	\$89.00	12.82%	1048bp	1-Oct-15	1-Oct-09	\$105.63	\$283	2.5x	5.5x	84%

Source: Company reports and J.P. Morgan.

Relative Value Analysis (Cont.)

Coupon	Description	Recommendation	Maturity	Ratings Moody's S&P	Current	Recent Quotes			YTW Date	Next Call Date		EBITDA LTM	EBITDA/ Interest LTM	Debt/ EBITDA LTM	Debt/ TEV
						Bid	Yield	Spread		Date	Price				
SUPPLIERS AND DISTRIBUTORS															
Bio-Rad Laboratories															
7.500%	Sr Sub Nts	NR	15-Aug-13	Ba3/BB+	\$225	\$98.00	8.06%	631bp	15-Aug-13	15-Aug-09	\$102.50	\$309	9.6x	1.5x	21%
6.125%	Sr Sub Nts	NR	15-Dec-14	Ba3/BB+	\$200	\$90.50	8.27%	612bp	15-Dec-14	15-Dec-09	\$103.06	\$309	9.6x	1.5x	21%
Omnicare															
6.125%	Sr Sub Nts	Hold	1-Jun-13	B1/B+	\$250	\$94.00	7.87%	620bp	1-Jun-13	1-Jun-09	\$102.04	\$600	3.9x	2.4x	28%
6.750%	Sr Sub Nts	Hold	15-Dec-13	B1/B+	\$225	\$94.75	8.14%	626bp	15-Dec-13	15-Dec-09	\$103.38	\$600	3.9x	2.4x	28%
6.875%	Sr Sub Nts	Hold	15-Dec-15	B1/B+	\$525	\$93.75	8.11%	573bp	15-Dec-15	15-Dec-10	\$103.44	\$600	3.9x	2.4x	28%
VWR International															
10.250%	Sr Nts	NR	15-Jul-15	Caa1/B-	\$675	\$72.75	17.64%	1536bp	15-Jul-15	15-Jul-11	\$105.13	\$320	1.1x	6.9x	73%
ALTERNATE SITE PROVIDERS															
Alliance Imaging															
7.250%	Sr Sub Nts	Hold	15-Dec-12	B3/B	\$300	\$98.75	7.65%	615bp	15-Dec-12	15-Dec-09	\$100.00	\$176	3.8x	3.8x	68%
CRC Health															
10.750%	Sr Sub Nts	NR	1-Feb-16	Caa1/CCC+	\$200	\$70.00	18.76%	1635bp	1-Feb-16	1-Feb-11	\$105.38	\$94	1.7x	8.0x	87%
Davita															
6.625%	Sr Nts	Hold	15-Mar-13	B1/B+	\$900	\$98.25	7.15%	555bp	15-Mar-13	15-Mar-10	\$101.66	\$1,196	5.6x	2.4x	35%
7.250%	Sr Sub Nts	Hold	15-Mar-15	B2/B	\$850	\$97.75	7.73%	552bp	15-Mar-15	15-Mar-10	\$103.63	\$1,196	5.6x	3.1x	45%
Hanger Orthopedic Group															
10.250%	Sr Nts	NR	1-Jun-14	Caa1/CCC+	\$175	\$102.50	9.29%	799bp	1-Jun-12	1-Jun-10	\$105.13	\$96	3.0x	4.4x	55%
National Mentor															
11.250%	Sr Sub Nts	NR	1-Jul-14	Caa1/CCC+	\$180	\$88.00	14.63%	1259bp	1-Jul-14	1-Jul-10	\$105.63	\$97	1.3x	5.4x	67%
L + 712.5	Sr Unsecured Nts	NR	15-Jun-14	Caa2/CCC+	\$209	na	na	nm	nm	15-Jun-09	\$103.00	\$97	1.3x	7.2x	90%
Rural/Metro															
9.875%	Sr Sub Nts	NR	15-Mar-15	B2/B-	\$125	\$84.50	13.81%	1160bp	15-Mar-15	15-Mar-10	\$104.94	\$56	1.8x	5.0x	94%
Res-Care*															
7.750%	Sr Nts	NR	15-Oct-13	B1/B	\$150	\$89.75	10.71%	890bp	15-Oct-13	15-Oct-09	\$103.88	\$119	6.5x	2.0x	30%
Surgical Care Affiliates															
8.875%	Sr Nts	NR	15-Jul-15	B3/B-	\$150	\$68.00	17.54%	1525bp	15-Jul-15	15-Jul-11	\$104.44	\$94	1.6x	5.6x	70%
10.000%	Sr Sub Nts		15-Jul-17	Caa1/CCC+	\$150	\$65.00	18.43%	1569bp	15-Jul-17	15-Jul-12	\$105.00	\$94	1.6x	7.2x	90%
United Surgical Partners															
9.250%	Sr Sub Nts	NR	1-May-17	Caa1/CCC+	\$200	\$74.50	14.80%	1210bp	1-May-17	1-May-12	\$104.63	\$177	2.1x	6.3x	78%
8.875%	Sr Sub Nts	NR	1-May-17	Caa1/CCC+	\$240	\$83.00	12.27%	958bp	1-May-17	1-May-12	\$104.44	\$177	2.1x	6.3x	78%
US Oncology															
9.000%	Sr Nts	NR	15-Aug-12	B2/B-	\$300	\$98.50	9.53%	815bp	15-Aug-12	15-Aug-09	\$102.25	\$230	2.6x	3.3x	41%
10.750%	Sr Sub Nts	NR	15-Aug-14	B3/CCC+	\$275	\$92.75	12.66%	1059bp	15-Aug-14	15-Aug-09	\$105.38	\$230	2.6x	4.7x	58%
L + 525	Sr HoldCo FRN	NR	15-Mar-12	Caa1/CCC+e	\$430	na	na	nm	nm	4-Jun-09	\$102.00	\$230	2.6x	6.6x	83%

Source: Company reports and J.P. Morgan.

Relative Value Analysis (Cont.)

Coupon	Description	Recommendation	Maturity	Ratings Moody's S&P	Current	Recent Quotes			YTW Date	Next Call Date		EBITDA LTM	EBITDA/ Interest LTM	Debt/ EBITDA LTM	Debt/ TEV
						Bid	Yield	Spread		Date	Price				
LONG-TERM HEALTHCARE PROVIDERS															
Skilled Healthcare Group															
11.000%	Sr Sub Nts	NR	15-Jan-14	Caa1/B-	\$130	\$104.00	9.27%	811bp	15-Jan-12	15-Jan-10	\$105.50	\$112	3.0x	4.2x	58%
SUPPLIER AND EQUIPMENT COMPANIES															
Accellent Inc.															
10.500%	Sr Sub Nts	NR	1-Dec-13	Caa3/CCC+	\$305	\$75.50	18.70%	1684bp	1-Dec-13	1-Dec-09	\$105.25	\$100	1.5x	7.1x	79%
Bausch & Lomb															
9.875%	Sr Nts	NR	1-Nov-15	Caa1/B	\$650	\$90.00	12.15%	979bp	1-Nov-15	1-Nov-11	\$104.94	\$415	1.9x	5.9x	66%
Biomet Inc.															
10.000%	Sr Nts	Hold	15-Oct-17	B3/B-	\$775	\$103.50	9.26%	692bp	15-Oct-15	15-Oct-12	\$105.00	\$904	1.6x	5.7x	63%
10.375%	Sr Nts	Hold	15-Oct-17	B3/B-	\$775	\$95.50	11.21%	841bp	15-Oct-17	12-Oct-12	\$105.19	\$904	1.6x	5.7x	63%
11.625%	Sr Sub Nts	Hold	15-Oct-17	Caa1/B-	\$1015	\$96.50	12.30%	950bp	15-Oct-17	15-Oct-12	\$105.81	\$904	1.6x	6.8x	76%
Boston Scientific															
6.400%	Sr Nts	NR	15-Jun-16	Ba1/BB+	\$600	\$95.63	7.20%	470bp	15-Jun-16	nc	na	\$2,104	4.8x	3.0x	34%
Reable															
10.875%	Sr Nts	NR	15-Nov-14	Caa1/B-	\$575	\$76.50	17.71%	1558bp	15-Nov-14	15-Nov-11	\$105.44	\$214	1.3x	7.6x	95%
11.750%	Sr Nts	NR	15-Nov-14	Caa1/CCC+	\$200	\$64.50	23.56%	2143bp	15-Nov-14	15-Nov-10	\$105.88	\$214	1.3x	8.5x	106%
Universal Hospital Services															
8.500%	Sr Sec Nts	NR	1-Jun-15	B3/B+	\$230	\$93.00	10.07%	781bp	1-Jun-15	1-Jun-11	\$104.25	\$102	2.2x	5.1x	73%
5.943%	Sr Sec Nts	NR	1-Jun-15	B3/B+	\$230	na	na	nm	nm	4-Jun-09	\$102.00	\$102	2.2x	5.1x	73%
LIFE SCIENCES															
Catalent Pharmaceuticals¹															
9.50%	Sr Nts	NR	15-Apr-15	Caa1/B	\$565	\$34.00	38.43%	3620bp	15-Apr-15	15-Apr-11	\$104.75	\$320	1.6x	7.5x	73%
9.75%	Sr Sub Nts	NR	15-Apr-17	Caa1/B-	\$225	\$27.00	41.85%	3904bp	15-Apr-17	15-Apr-12	\$104.88	\$320	1.6x	7.5x	73%
Elan Pharmaceuticals															
7.750%	Sr Nts	Buy	15-Nov-11	B3/B	\$850	\$89.00	13.00%	1189bp	15-Nov-11	15-Nov-09	\$101.94	\$13	0.1x	NM	40%
5.234%	Sr Nts	Buy	15-Nov-11	B3/B	\$300	\$82.63	13.10%	nm	nm	4-Jun-09	\$100.00	\$13	0.1x	NM	40%
8.875%	Sr Nts	Buy	1-Dec-13	B3/B	\$465	\$84.50	13.53%	1167bp	1-Dec-13	1-Dec-10	\$104.44	\$13	0.1x	NM	40%
5.386%	Sr Nts	Buy	1-Dec-13	B3/B	\$150	\$70.00	14.12%	nm	nm	1-Dec-09	\$101.00	\$13	0.1x	NM	40%
DEATHCARE															
Carriage Services															
7.875%	Nts	NR	15-Jan-15	B1/B-	\$130	\$81.00	12.65%	1048bp	15-Jan-15	15-Jan-10	\$103.94	\$38	2.1x	6.2x	73%
Service Corporation International															
6.750%	Sr Nts	NR	1-Apr-15	B1/BB-	\$200	\$91.75	8.56%	634bp	1-Apr-15	nc	nc	\$471	3.5x	4.0x	65%
7.875%	Debs	NR	1-Feb-13	B1/BB-	\$56	\$98.50	8.34%	679bp	1-Feb-13	nc	nc	\$471	3.5x	4.0x	65%
7.500%	Sr Nts	NR	1-Apr-27	B1/BB-	\$200	\$78.50	10.12%	661bp	1-Apr-27	nc	nc	\$471	3.5x	4.0x	65%
6.750%	Sr Nts	NR	1-Apr-16	B1/BB-	\$250	\$90.00	8.71%	626bp	1-Apr-16	nc	nc	\$471	3.5x	4.0x	65%
7.000%	Sr Nts	NR	15-Jun-17	B1/BB-	\$300	\$90.50	8.65%	593bp	15-Jun-17	nc	nc	\$471	3.5x	4.0x	65%
7.375%	Sr Nts	NR	1-Oct-14	B1/BB-	\$250	\$96.00	8.31%	620bp	1-Oct-14	nc	nc	\$471	3.5x	4.0x	65%
7.625%	Sr Nts	NR	1-Oct-18	B1/BB-	\$250	\$91.25	9.02%	600bp	1-Oct-18	nc	nc	\$471	3.5x	4.0x	65%
Stewart Enterprises															
6.250%	Sr Nts	NR	15-Feb-13	Ba3/BB-	\$200	\$90.25	9.37%	780bp	15-Feb-13	15-Feb-10	\$101.56	\$94	3.9x	4.8x	51%

Note: EBITDA is Adjusted EBITDA. Interest Expense is based on LTM values.

1. PTSAC Adjusted EBITDA is from company guidance and is pro forma, interest expense is pro forma

Source: Company reports and J.P. Morgan.

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North America Credit Research
05 May 2009

J.P.Morgan

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