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Health Care Providers

August physician office visit survey data improves slightly

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Physician visit data shows modest improvement

Our physician visit survey sample data, although negative, showed an improvement in August compared to July. Office visits were down 1.3% Y/Y vs. down 7.3% Y/Y in July. It is important to note that August benefited from an extra business day compared to last year. That being said, relative to very negative expectations, it seems like QTD trends are in-line to better with the slightly improved August result.

August physician visits (1.3%); primary care 2.4%

Our physician visit data is based on an IMS sample-survey that is directionally relevant, albeit not exact in terms of predicting outpatient volume trends. Importantly, there is a strong correlation between diagnostic test orders (lab and radiology) and physician office visits. Physician visits also tend to be a good leading indicator for elective outpatient surgery common in the ASC setting. The IMS survey sample indicates that total patient visits to physicians were down 1.3% in August 2010 against a +2.2% comp. Primary care physician visits were up 2.4% in August 2010 against a -2.5% comp in our data-set. It is important to note that August 2010 benefited from an extra business day compared to last year, which can have a meaningful impact on volume growth. While August visits remained negative, it was above July (-7.3%) and above the YTD average (-4.2%). August also marked the first month this year that saw positive primary care physician visits. From a regional perspective, the East region looked particularly weak in the month of August 2010 (-9.8%), while the West region was the weakest region in July 2010 at (-8.8%). See attached note for a summary of the data by period and by region.

Investment outlook, valuation and risks

We have Hold ratings on both of the major clinical lab companies (DGX and LH) based on our view of the sector's current valuation and growth prospects. With regard to the imaging providers, we believe continued volume softness could negatively impact both RDNT and AIQ, although we retain our Buy rating on RDNT due to its attractive valuation and solid business model. With regard to the ASC chains, we believe soft demand and over-capacity create a very difficult fundamental environment over the near-term. Both AMSG and NOVA are Hold-rated. Our target valuations for the labs are based on 12.5x-13x forward (2011) P/Es or a roughly 20% discount to historical average P/Es; the lower target P/E is underpinned by the sector's slowing growth profile in the context of softer demand and a tougher competitive landscape. Our target valuations for the imaging providers are 5x-6x EBITDA (in-line with historical averages), with AIQ at the lower end of the range due to its more challenged mobile business model and RDNT at the middle of the range due to its more competitive free standing multi-modality business model. Our target valuations for the ASC chains are based on 7x EBITDA, which is a discount to the historical average of 8x-10x, but justified due to weak fundamentals. Key downside risks include soft volume, competition, Medicare/ Medicaid and other third-party payor cuts. Key upside risks are accretive M&A, accretive buybacks, and better-than-expected market share gains.

Industry Update

Companies featured			
Alliance HealthCare (AIQ.N),USD4.31 Hold			
	2009A	2010E	2011E
EPS (USD)	0.20	0.02	0.11
P/E (x)	34.1	254.7	38.4
EV/EBITDA (x)	5.4	4.9	4.6
Amisurg Corp (AMSG.OQ),USD16.97 Hold			
	2009A	2010E	2011E
EPS (USD)	1.71	1.67	1.70
P/E (x)	11.8	10.2	10.0
EV/EBITDA (x)	8.4	7.6	7.3
Quest Diagnostics Inc (DGX.N),USD48.27 Hold			
	2009A	2010E	2011E
EPS (USD)	3.87	3.99	4.18
P/E (x)	13.7	12.1	11.5
EV/EBITDA (x)	7.7	6.9	6.4
LabCorp of America (LH.N),USD74.96 Hold			
	2009A	2010E	2011E
EPS (USD)	4.89	5.51	6.12
P/E (x)	13.4	13.6	12.3
EV/EBITDA (x)	8.3	8.4	7.7
NovaMed Inc (NOVAD.OQ),USD8.98 Hold			
	2009A	2010E	2011E
EPS (USD)	0.97	0.85	0.95
P/E (x)	11.2	10.5	9.5
EV/EBITDA (x)	4.9	4.8	4.5
RadNet Inc. (RDNT.OQ),USD2.49 Buy			
	2009A	2010E	2011E
EPS (USD)	0.19	0.01	0.36
P/E (x)	12.0	234.4	6.9
EV/EBITDA (x)	5.6	5.9	4.9

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Physician Tracker Highlights

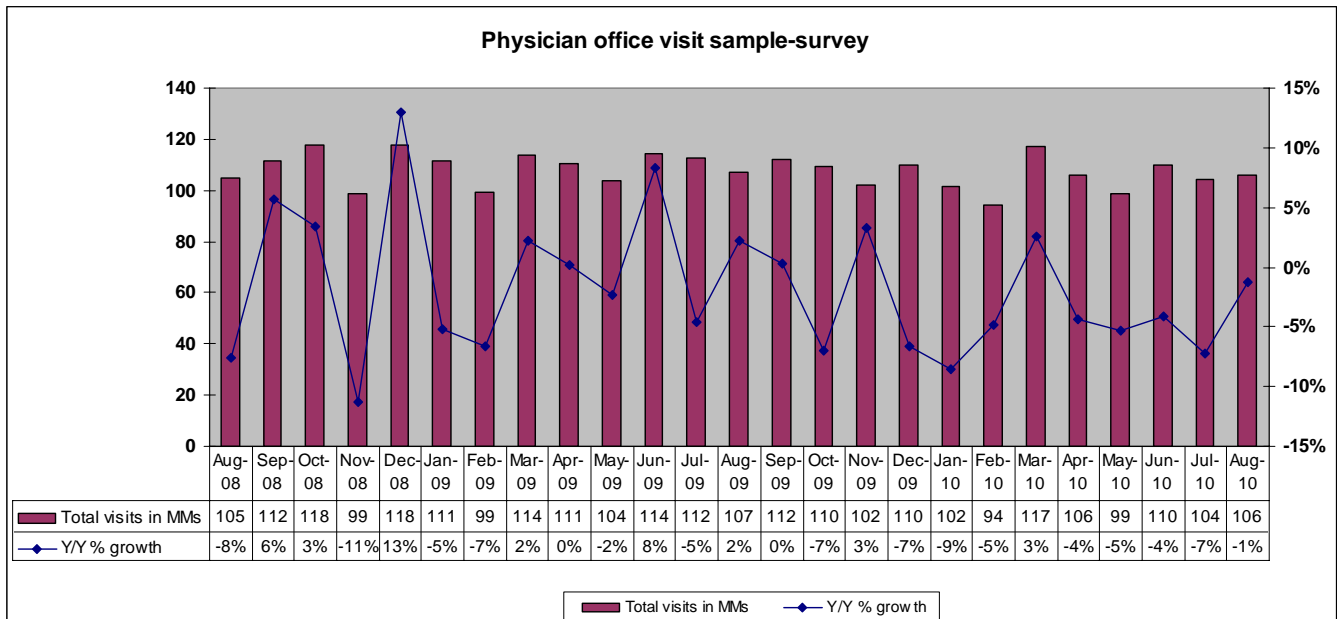
Key points

- Our physician visit data is based on an IMS sample-survey that is directionally relevant, albeit not exact in terms of predicting outpatient volume trends. There tends to be a strong relationship between physician office visits and diagnostic test orders (lab and radiology). We also believe physician office visits are an important leading indicator for elective outpatient surgery volumes.
- The IMS survey sample indicates that total patient visits to physician offices were down 1.3% in August 2010 against a +2.2% comp. Primary care visits were up for the first time this year at +2.4% in August 2010 against a -2.5% comp.
- August is the fifth consecutive month this year to post negative growth in physician visits; the YTD averages are -4.2% for the total market and -4.2% for primary care. Sequentially, August was an improvement versus July 2010 (-7.3%) and Q2 (-4.6%). From a regional perspective, the East looks particularly weak in the month of August.
- As a result of these trends, we believe volumes for the major outpatient service provider chains like labs, ASCs and imaging may continue to be constrained into Q3. That being said, relative to very negative expectations, it seems like QTD trends are in-line to better with the slightly improved August result.
- We maintain a cautious stance on most of the outpatient providers under coverage with Holds on the major labs (DGX/LH) the two publicly traded outpatient surgery center chains (AMSG/NOVA) and a less constructive near-term view on the imaging sector (AIQ – Hold / RDNT – Buy).

Data review

Figure 1 highlights monthly physician office visits and Y/Y growth over the past 12 months.

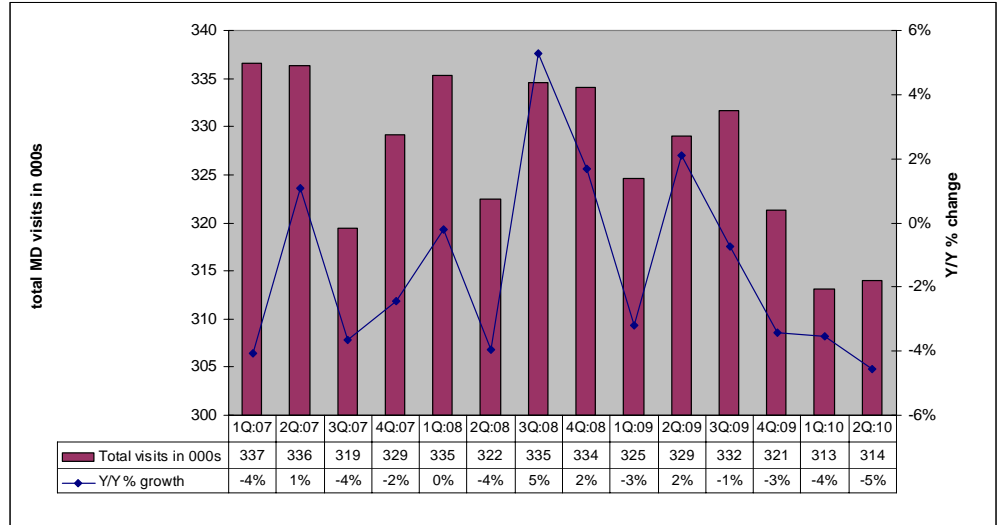
Figure 1: Total monthly physician office visits and Y/Y growth: 7/2008 – 7/2010



Source: Deutsche Bank, IMS

Figure 2 highlights quarterly physician office visits and growth from Q1 2007 to Q2 2010. The drop-off in 2010 is notable, in our view.

Figure 2: Total quarterly physician office visits: Q1 2007 to Q2 2010



Source: Deutsche Bank, IMS

Figure 3 is a summary table of annual and quarterly figures for the total market.

Figure 3: Total physician office visit summary table

Total market growth for physician-patient visits:

Annual Figures:

2007 avg.	-2.3%
2008 avg.	0.7%
2009 avg.	-1.3%
LTM avg.	-3.6%

Quarterly Figures

1Q:09 avg.	-3.2%
2Q:09 avg.	2.1%
3Q:09 avg.	-0.7%
4Q:09 avg.	-3.4%
1Q:10 avg.	-3.6%
2Q:10 avg.	-4.6%
3Q:10 avg. thru August	-4.3%
YTD 2010	-4.2%

Source: Deutsche Bank, IMS

Figure 4 is a summary table of annual and quarterly figures for primary care physicians, which we define as family medicine, internal medicine, general practice and pediatrics.

Figure 4: Total primary care physician office visit summary table

Total market growth for primary care physician-patient visits:

Annual Figures:

2007 avg.	-3.3%
2008 avg.	2.3%
2009 avg.	-2.2%
LTM avg.	-3.6%

Quarterly Figures

1Q:09 avg.	-3.9%
2Q:09 avg.	1.2%
3Q:09 avg.	-3.6%
4Q:09 avg.	-2.4%
1Q:10 avg.	-5.0%
2Q:10 avg.	-5.1%
3Q:10 avg. thru August	-1.7%
YTD 2010	-4.2%

Source: Deutsche Bank, IMS

Figure 5 is a summary table of annual and quarterly figures for total physician visits sorted by region. Note the marked weakness in the East Region.

Figure 5: Total physician office visits by region**Total market growth for physician-patient visits in SOUTH REGION:**

Annual Figures:

2007 avg.	-2.9%
2008 avg.	1.5%
2009 avg.	-2.1%
LTM avg.	-3.8%

Quarterly Figures

1Q:09 avg.	-4.5%
2Q:09 avg.	2.3%
3Q:09 avg.	-0.5%
4Q:09 avg.	-5.6%
1Q:10 avg.	-3.4%
2Q:10 avg.	-4.6%
3Q:10 avg. thru August	-3.0%
YTD 2010	-3.8%

Total market growth for physician-patient visits in EAST REGION:

Annual Figures:

2007 avg.	-4.1%
2008 avg.	0.9%
2009 avg.	2.3%
LTM avg.	-3.9%

Quarterly Figures

1Q:09 avg.	-0.7%
2Q:09 avg.	5.9%
3Q:09 avg.	4.2%
4Q:09 avg.	-0.1%
1Q:10 avg.	-2.5%
2Q:10 avg.	-9.6%
3Q:10 avg. thru August	-7.5%
YTD 2010	-6.4%

Total market growth for physician-patient visits in MIDWEST REGION:

Annual Figures:

2007 avg.	-1.9%
2008 avg.	0.5%
2009 avg.	-2.1%
LTM avg.	-0.1%

Quarterly Figures

1Q:09 avg.	-3.1%
2Q:09 avg.	-1.6%
3Q:09 avg.	-0.1%
4Q:09 avg.	-3.8%
1Q:10 avg.	-1.3%
2Q:10 avg.	6.8%
3Q:10 avg. thru August	-2.6%
YTD 2010	1.4%

Total market growth for physician-patient visits in WEST REGION:

Annual Figures:

2007 avg.	0.4%
2008 avg.	-0.2%
2009 avg.	-2.9%
LTM avg.	-6.1%

Quarterly Figures

1Q:09 avg.	-3.6%
2Q:09 avg.	1.5%
3Q:09 avg.	-6.8%
4Q:09 avg.	-2.8%
1Q:10 avg.	-7.5%
2Q:10 avg.	-9.5%
3Q:10 avg. thru August	-4.1%
YTD 2010	-7.4%

Source: Deutsche Bank, IMS

Appendix 1

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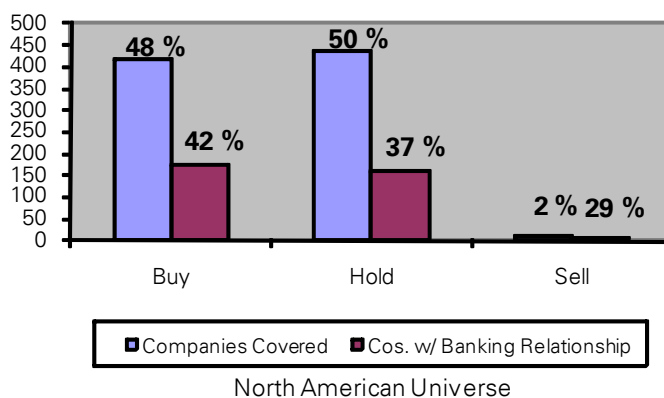
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