HOME CARE INDUSTRY HAS BEEN GROWING

- Increasing elder population
- Acceptance by physicians
- Chronic disease growth
- Other factors
HOME CARE INDUSTRY HAS BEEN GROWING (CONSTRAINTS)

- However, Government programs represent
  - 80% of industry revenue (Medicare and Medicaid)
  - Federal and state budgets shrinking

- Centers for Medicare and Medicaid (CMS)
  - Announce 4 year 3.5% annual reductions to Medicare base payment for home healthcare beginning January 1, 2014!
HOME CARE INDUSTRY HAS BEEN GROWING, BUT

- Aggressive cost cutting begins
  - Industry is lobbying Congress to reconsider
  - Expected industry revenue to decrease at an annualized .2% in 5 years to 2019 to 74.0 billion
  - Average margin 6.9% in 2014
  - To decrease to average margin 4.6% by 2019

HOME CARE INDUSTRY HAS BEEN GROWING

- Approximately 8% of industry revenue is from private insurance payments and is expected to increase.

- Out-of-pocket per capital disposable income makes up approximately 10% of industry revenue and is expected to go up in 2014.

- The industry is highly fragmented with few strong players and very little political clout.

- CMS expects 40% of small home healthcare companies will go into the red by end of 2017! And up to 500,000 industry employees lose their jobs by end of 2017.
HOME CARE INDUSTRY HAS BEEN GROWING

- According to Gentiva Health Services, a major provider of home healthcare services, Medicare Part A and Part B payments for home care averaged $50 per day, which compares favorably with payments for hospice care ($135), skilled nursing facilities ($303) and hospitals ($1,479).
HOME CARE INDUSTRY HAS BEEN GROWING

- According to the Assisted Living Federation of America, the need for living assistance increases with age, rising from 20.9% of the 75 to 84 years of age population to 50.2% of the 85 years of age population.

HOME CARE INDUSTRY HAS BEEN GROWING

- On the state level, the three states with the largest number of industry establishments are Texas, California and Florida, accounting for about 13.3%, 10.3% and 9.3% of the total number of establishments, respectively.
HOME CARE INDUSTRY HAS BEEN GROWING

- IBISWorld expects growth in the total number of homecare firms to slow in the next five years, indicating that companies will continue to consolidate, the market will become more concentrated and the largest industry firms will control increasingly larger shares of the total home healthcare market.

HOME CARE INDUSTRY HAS BEEN GROWING

- Wages account for 50.2% of industry revenue in 2014, down slightly from 2009.
HOME CARE INDUSTRY HAS BEEN GROWING

- A 2009 study by the National Association for Home Care and Hospice shows that the nurses, therapists, home care aides and others who serve elderly and disabled patients in their homes drive, on average, more miles annually than many driving professionals, including UPS drivers. This exposes the industry to rising gasoline prices and other transportation expenses, such as vehicle and leases.

HOME CARE INDUSTRY HAS BEEN GROWING

- Some companies have sought to grow market share, including through acquisition activity, in order to better penetrate key geographic markets and more efficiently market products and services to physicians, hospital discharge planners and managed care organizations.

- Some industry players align themselves with other health-care providers to raise their profile among managed care providers and provider networks.
HOME CARE INDUSTRY HAS BEEN GROWING

- The industry is highly fragmented with more than 310,000 different operators.

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Source: www.IBISWorld.com
WOTC?

- Work Opportunity Tax Credits (WOTCs) are demographic credits that encourage employers to hire employees from at least one of the following categories and claim a tax credit generally equal to 40% of the first $6,000 of wages paid to those new hires:
  
  - Members of families receiving benefits under the Temporary Assistance to Needy Families (TANF) program
  
  - Qualified ex-felons
  
  - Designated community residents
  
  - Vocational rehabilitation referrals

In order to claim the credit, employers must complete and file the required forms with the state workforce agency within 28 days of the new employee’s start date.
BUSINESSES ARE BOUGHT & SOLD ON EXPECTED FUTURE CASH FLOW!

- And its likelihood to sustain or not
- To grow or not
- Higher growth potential – greater value

BUSINESSES ARE BOUGHT & SOLD ON EXPECTED FUTURE CASH FLOW!

- Cash flow = adjusted EBITDA
  - Earnings before interest taxes
  - Depreciation and amortization
BUSINESSES ARE BOUGHT & SOLD ON EXPECTED FUTURE CASH FLOW!

- Not really!
  - Cash flow – most tax returns
  - EBITDA starts with accrued based financial statements

BUSINESS PLAN

- FMV = Multiple X EBITDA – Long-Term Debt + Excess Working Capital
BUSINESSES ARE BOUGHT & SOLD ON EXPECTED FUTURE CASH FLOW!

- Buyers beware bad receivable
- Sellers use EBITDA if growing and lost of good receivables

EXAMPLE

- Revenue: $4,000,000
- Steadily growing revenue, healthy profits
- Established over 15 years
- Good financial records
- 95% of revenue from traditional Medicare
- Accredited
## ADJUSTED EBITDA CALCULATION
FOR AN AGENCY THAT WAS SOLD

<table>
<thead>
<tr>
<th></th>
<th>Trailing 12 Months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue (accrual basis)</td>
<td>4,000,000</td>
</tr>
<tr>
<td>Cost of Sales (67.0%)</td>
<td>2,850,000</td>
</tr>
<tr>
<td>G&amp;A Operating Expenses</td>
<td>750,000</td>
</tr>
<tr>
<td>Net Income</td>
<td>400,000</td>
</tr>
</tbody>
</table>

## EBITDA CALCULATION

<table>
<thead>
<tr>
<th></th>
<th>Trailing 12 Months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Profit (from previous slide)</td>
<td>400,000</td>
</tr>
<tr>
<td>Interest</td>
<td>0</td>
</tr>
<tr>
<td>C-Corp Taxes</td>
<td>0</td>
</tr>
<tr>
<td>Depreciation/Amortization</td>
<td>30,000</td>
</tr>
<tr>
<td>Total EBITDA</td>
<td>430,000</td>
</tr>
</tbody>
</table>
FRINGE BENEFITS AND OTHER ADD-BACKS

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owners Salary &amp; Payroll Taxes</td>
<td>200,000</td>
</tr>
<tr>
<td>Other Family Wages (non-working)</td>
<td>75,000</td>
</tr>
<tr>
<td>Owner Personal Insurance</td>
<td>32,000</td>
</tr>
<tr>
<td>Owner Personal Auto Expenses</td>
<td>18,000</td>
</tr>
<tr>
<td>Other Fringe Benefits</td>
<td>30,000</td>
</tr>
<tr>
<td>Non-Recurring Expenses</td>
<td>15,000</td>
</tr>
<tr>
<td>Rent Adjustment if Owned by Seller</td>
<td>0</td>
</tr>
<tr>
<td>Other Add-Backs</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total Benefits &amp; Add-Backs</strong></td>
<td>370,000</td>
</tr>
</tbody>
</table>

CALCULATION OF OWNERS’ INCOME

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total EBITDA</td>
<td>430,000</td>
</tr>
<tr>
<td>Total Benefits &amp; Add-Backs</td>
<td>370,000</td>
</tr>
<tr>
<td><strong>Equals Total Owners’ Income</strong></td>
<td>800,000</td>
</tr>
</tbody>
</table>

Owners’ income includes all wages, employment taxes and benefits paid to the owners.
CALCULATION OF ADJUSTED EBITDA

<table>
<thead>
<tr>
<th>Trailing 12 Months</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Owners’ Income</td>
<td>800,000</td>
</tr>
<tr>
<td>Less Salary Replacement for Owner*</td>
<td>130,000</td>
</tr>
<tr>
<td>Equals Adjusted EBITDA</td>
<td>670,000</td>
</tr>
</tbody>
</table>

*Note: Two owners both working full time (subjective)

SUMMARY

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>4,000,000</td>
</tr>
<tr>
<td>Owners Income</td>
<td>800,000</td>
</tr>
<tr>
<td>Replacement Salary (2 owners)</td>
<td>130,000</td>
</tr>
<tr>
<td>Adjusted EBITDA</td>
<td>670,000</td>
</tr>
</tbody>
</table>
WHAT DID THIS AGENCY SELL FOR?

Not including cash, A/R or liabilities

Revenue = $4,000,000

AEBITDA = $670,000

$3,000,000

No long term debt

No excess working capital

STRUCTURE OF SALE

- $2,500,000 (84%) cash at closing
- $500,000 as a promissory note, paid out over 2 years, 3.25% interest, annual payments
- Installment sale reporting
ASSET SALE

- Seller sells the assets, not the corporation
- Seller keeps the excess working capital
- Seller is responsible for all long-term debt
- Buyer acquires all furniture, fixtures and equipment
- Buyer acquires all of the intangible assets i.e. trade name, telephone number, and goodwill
- Buyer assumes the equipment and premises leases
- Real Estate

GOODWILL

- I’m selling goodwill
- Key people
- Systems
- Quality control
GOODWILL

- Value is calculated
- Price is negotiated
  - The value arrived at in a business appraisal may or may not have anything to do with the price that the business will actually sell for
  - Get a exit plan value system in place

INCREASE INCOME?

- Alter the time-frame for the AEBITDA calculation
- Project growth for earn out
TIME PERIOD FOR AEBITDA CALCULATION?

- Three year average?
- Past fiscal year?
- 12 months trailing?
- Last few months annualized?

PRIVATE DUTY AGENCY SALE
SELLING PRICE = $1,800,000

<table>
<thead>
<tr>
<th></th>
<th>Last Fiscal Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$1,600,000</td>
</tr>
<tr>
<td>AEBITDA</td>
<td>$300,000</td>
</tr>
<tr>
<td>AEBITDA Multiple</td>
<td>6.0</td>
</tr>
<tr>
<td>Percent of Revenue</td>
<td>112%</td>
</tr>
</tbody>
</table>
### SELLING PRICE = $1,800,000

<table>
<thead>
<tr>
<th></th>
<th>Last Fiscal Year</th>
<th>12 Months Trailing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$1,600,000</td>
<td>$2,120,000</td>
</tr>
<tr>
<td>AEBITDA</td>
<td>300,000</td>
<td>380,000</td>
</tr>
<tr>
<td>AEBITDA Multiple</td>
<td>6.0</td>
<td>4.7</td>
</tr>
<tr>
<td>Percent of Revenue</td>
<td>112%</td>
<td>85%</td>
</tr>
</tbody>
</table>

### SELLING PRICE = $1,800,000

<table>
<thead>
<tr>
<th></th>
<th>Last Fiscal Year</th>
<th>12 Months Trailing</th>
<th>Previous 4 mos Annualized</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$1,600,000</td>
<td>$2,120,000</td>
<td>$2,600,000</td>
</tr>
<tr>
<td>AEBITDA</td>
<td>300,000</td>
<td>380,000</td>
<td>430,000</td>
</tr>
<tr>
<td>AEBITDA Multiple</td>
<td>6.0</td>
<td>4.7</td>
<td>4.2</td>
</tr>
<tr>
<td>Percent of Revenue</td>
<td>112%</td>
<td>85%</td>
<td>70%</td>
</tr>
</tbody>
</table>
LOWER THE RISK…. INCREASE THE MULTIPLE

- Value Driver #1
  Quality of the financial records and management reports

ITS ABOUT BUILDING TRUST

- Well prepared and accurate financial statements and management reports builds trust
FINANCIAL RECORDS

- Accrual accounting
- Breakout of direct costs under cost of sales, including all clinical workers, their payroll taxes and workers compensation
- Easily identifiable owners' wages, and benefit expenses
- Prepared monthly….compared to previous periods
- Remove personal items
- Prepare your business valuation package

MANAGEMENT REPORTS

- Accounts receivable aging reports
- Revenue by level of care
- Revenue by payor source
- Revenue by referral source
- Hours of service
- Revenue by patient
OTHER VALUE DRIVERS

- Diverse base of referrals
- Strong management team
- Key employees on non-solicitation agreements
- Quality service – a given

BUSINESS

- Transfer from a lifestyle business to a value-added business
- Develop quality financial and management reports
- Prepare on a regular basis your adjusted EBITDA
- Develop a professional management team
- Put key employees on non-solicitation
- Emphasis on increasing sales
- You will never sell at precisely the right time
BUSINESS PLAN

- Goals aren’t enough, you need a business plan
- An active advisory committee
- Quarterly meetings

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