HOW TO BE READY FOR MERGERS & ACQUISITIONS

THE WAY WE WERE
THE WAY WE ARE NOW

A HOME HEALTH M&A TIMELINE
PRE-PPS

- Cost based environment
- Valuation loosely tied to opportunities to “cost-shift”
- Predominate metrics
  - Price per visit
  - CON vs. Non-CON states
- Vibrant market
TRANSITION TO IPS AND PPS

- Period of extraordinary volatility
- 4-5 thousand agencies shut down
- M&A market freezes
- Deal volume falls dramatically

HOSPICE IPOS

- Odyssey – One of the most successful of 2001
- VistaCare
- Visibility, Valuation, Vibrancy
PRIVATE EQUITY SEES AN OPENING

- Prospective payment system in-place
- First opportunity to generate profits
- Strategics slow to risk-return valuation metrics (EBITDAx)
- Private equity moves in to fill the void
- Acquisition demand rises
- Valuation begins to rise

STRATEGICS REACT

- Strategics see influx of PE competitors
- More comfortable with PPS
- Enter the M&A market
- Demand rises further
- Valuation rises further
- Benchmark multiples of EBITDA form
MARKET PEAK

- Extremely competitive – PE sponsors and strategic buyers
- Simultaneously, access to cheap debt soars
- Go forward reimbursement and regulatory risk deemed low
- Valuations soar, particularly for large platform providers

HOME HEALTH DISTRACTS FROM HOSPICE

- M&A can be a “zero sum game”
- Investment pool for services in the home
- A dollar invested in home health is one less dollar in hospice
- Home health peak draws interest from hospice
ECONOMIC DOWNTURN

- Recession hits
- Debt capital dries up
- Market confidence sinks
- Largest players sustain the greatest hit in valuation

MEDPAC DEBUTS U-SHAPED CURVE

- Potential radical change in hospice reimbursement
- No earlier than 2013
- Sets stage for rising risk-profile
BAD PRESS, AND REAL CUTS

- Nationals face bad press, congress, and judiciary
  - Overzealous OASIS scoring
  - High episodes per patient
  - Therapy above 10 visits
- First real year-over-year cuts
- Demand falls
- Valuation falls

HOSPICE BECOMES THE HOME HEALTH ALTERNATIVE

- The zero sum game in reverse
- Home health’s losses are hospice’s gains

WE’RE BACK BABY!
SLOW RETURN

- Downward dogs wash through the sector
- Economy shows incremental improvement
- Nationals embrace internal reforms
- Providers adapt to price reductions
- M&A market begins slow return

REBASENING

- Bad for reimbursement – Extraordinarily favorable for M&A
- Four years of reimbursement clarity
- Insulation from further cuts
- Risk-profile at it’s lowest point since implementation of PPS
- Opportunity to gain share as providers face reduced margins
- A second peak evolves quickly
HOSPICE PAYMENT REFORM LOOMS

THE AGE OF COORDINATED CARE

- Health care reform survives
- Multiple coordinated care initiatives begin to take shape
- Sentiment swells – coordinated care will (must) happen
- New buyers, new strategies, new opportunities
CMS ISSUES FINAL HOSPICE PAYMENT RULE

Far more benign than anticipated

THE WAY WE ARE
NEAR TERM ENVIRONMENT

- Rebasing ends
- SGR update cap begins
- Predictable reimbursement period extended
- Hospice redresses scrutiny
- C A L M

THE NEW KIDS ON THE BLOCK

- Coordinated Care Buyers
  - Skilled nursing providers
  - Hospitals
  - Insurance/Managed Care companies
  - Coordinated Care Management Companies
    - Centene
    - Envision
    - Accelera Innovations
NKOTB VALUE DRIVERS

- Overlapping market coverage
- Proven “HTG” data regarding re-hospitalizations
- Predictive analytics
  - Almost Family acquires Ingenios Health Co.
- Experience with capitation
- Star Ratings?

THE BOYS ARE BACK IN TOWN

- Private equity
  - Private equity is again eyeing home health and hospice
  - A new investment thesis
    - 4 years of rebasing will produce “opportunistic” acquisition options
    - Size necessary to meet needs of coordinated care/narrow networks
    - Technology will create competitive advantages and drive down costs
    - Multi-pronged exit opportunities
VALUE DRIVERS FOR THE MASTERS OF THE UNIVERSE

- Best in class management team
- Tight local or regional footprint
- Experience in acquisitions and integration
- Effective deployment of technology; analytics
- Hospital joint venture experience
- Capitation

THE VIEW FROM THE STRATEGICS

- Cautious
- Lying in wait
- Repeating the IPS to PPS lag?
OUTLOOK: PUTTING IT ALL TOGETHER

Valuation Trends in Medicare Home Health and Hospice

THE BRAFF GROUP

The Braff Group is the leading merger and acquisition advisory firm specializing in health care services including home health care, hospice, behavioral health, infusion therapy, specialty pharmacy, urgent care, home medical equipment, and health care staffing.


US Announced Advisor: Health Care Industry

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