



Overview

The Home Health and Hospice Care segment, one of the Healthcare industry's most active in M&A activity, saw an increase in transactions during Q1 2017 for the second consecutive quarter. Over 10 separate acquirers completed 14 transactions, with active consolidators like Amedisys, Inc. (Nasdaq:AMED) and private-equity-backed Jordan Health Services closing two or more each.

Buyer acquisition strategies include large consolidators purchasing major hospital systems home health and hospice operations and forming strategic partnerships with them, facilities-based providers deepening their ability to participate through the full continuum of care, and mid-size regional operators expanding their geographic reach and scale.

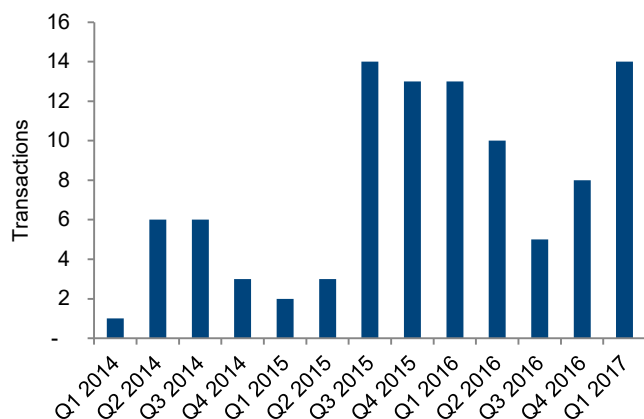
For sellers, Medicare reimbursement cuts for home health episodes—implemented in 2014 under the Affordable Care Act—continued to take a toll on smaller local and regional providers struggling to maintain historical profitability levels. Under this plan, reimbursements will continue to decline through year-end 2017, reaching a cumulative 15% reduction. Realizing the continued industry challenges and further reimbursement cuts, sellers increasingly explore exiting the business, especially given

attractive valuations driven by the many active consolidators, facilities-based acquirers, and private equity buyers.

The most active acquirers during the quarter included publicly-traded and private-equity-backed strategic buyers, many of which concluded multiple transactions during the past several years (some did over 10). Consolidators have been motivated by achieving greater scale and operational efficiencies through a strategic acquisition approach, which will continue driving further transaction activity. Additionally, three transactions were completed by private equity firms establishing new platform investments in the sector. The positive investment thesis developed by these buyers will foster aggressive pursuit of strategic add-on acquisitions to expand their platforms and build a larger operation.

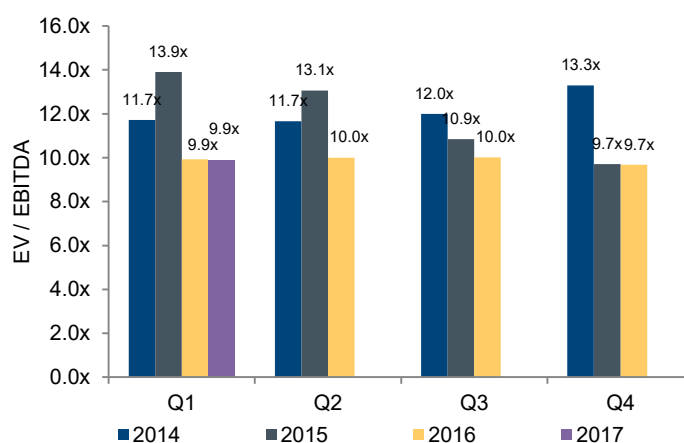
Publicly traded companies remain healthy, trading at a quarter-ending, median-trailing 12-month Enterprise Value to EBITDA multiple of 9.9x, which is consistent with the last six quarters. With healthy balance sheets, and continued private equity interest driving new platform investments, abundant capital resources afford a strong industry-wide acquisition focus.

Transactions by Quarter



Source: CapIQ

Valuation Metrics by Quarter



Source: CapIQ

Reported M&A Activity

The strategic rationale driving the sector's most active consolidators remains diverse, but follows industry-wide effort to reduce overall patient treatment costs. Home health and hospice services are lower-cost alternatives to any other form of skilled care, and represent two of the most attractive sectors of the healthcare industry for investment.

Large home health and hospice operators continue to expand geographically, but recently started a trend—acquiring the home health and hospice operations of major hospital systems. By doing so, they continue building scale nationally and create a highly synergistic referral-based platform with the hospital system. Almost Family, Inc. (Nasdaq:AFAM), which has acquired and integrated 30 targets for a combined \$390 million in transaction value since 2005, acquired 80% of the home health and hospice operations of Community Health Systems (NYSE:CYH) for \$128 million in January 2017, representing a multiple of 6.5x EBITDA. Amedisys, Inc. (Nasdaq:AMED), which completed six acquisitions since 2015, announced the acquisition of six home health and hospice operations from Tenet Healthcare (NYSE:THC) in AZ, IL, MA, and TX. On completing this transaction, Amedisys will have acquired approximately \$145 million of additional annual revenue since 2015.

Facilities-based healthcare providers seek to establish services-based home health and hospice operations close to their existing facilities, to maintain continuity of patient care. The Ensign Group, Inc. (Nasdaq:ENSG), which operates 211 skilled-nursing and assisted-living facilities throughout the U.S., acquired Hospice of the Pines to expand throughout Arizona and offer a continuum of care with its existing facilities in the Prescott area.

Regional operators and private equity-backed strategic acquirers also continue to expand their platforms by growing into new geographic markets and building scale through acquisitions. Texas-based Jordan Health Services has completed 13 transactions since being acquired by private equity firm Palladium Equity Partners in 2014. This included three transactions in Q1 2017, two of which consisted of acquiring more than one entity of the seller. These acquisitions include Dallas Hospice, Inc. and Grapevine Mission Hospice, LLC, Medistar Home Health, LLC, Health Sense Hospice, Inc., Health Sense Home Care, Inc., and Health Sense Home Care of San Antonio, LLC. Private equity firm Blue Wolf Capital Partners, LLC made a notable investment in Great Lakes Caring Home Health and Hospice in late 2016. With more than 2,600 professionals in 25 offices, Great Lakes Caring is a leading regional Midwest provider now well-capitalized and positioned to actively participate in industry consolidation.

Noteworthy Home Health & Hospice Care Transactions | Q1 2017

Closed Date	Target/Issuer	Buyers/Investors	Target Business Description	Price (\$USDmm)	Trans. Value / Revenue	Trans. Value / EBITDA
03/31/2017	Sta-Home Home Health & Hospice	AccentCare, Inc.	Largest home health provider in MS	ND	NA	NA
03/22/2017	Hometown Hospice & Homecare, Inc.	JPB Capital Partners	Homecare and hospice care agency	ND	NA	NA
03/13/2017	Hospice of the Pines	Cornerstone Healthcare, Inc. (The Ensign Group, Inc. - Nasdaq:ENSG)	Hospice provider serving Yavapai County in AZ	ND	NA	NA
3/1/2017*	Tenet Healthcare (NYSE:THC)	Amedisys, Inc. (Nasdaq:AMED)	Six home health & hospice operations in AZ, IL, MA, and TX	\$21	NA	NA
02/02/2017	Home Staff, LLC	Associated Home Care - (Amedisys, Inc. - Nasdaq:AMED)	Operates personal care centers in the state of MA	\$4	0.4x	NA
01/17/2017	PSA Healthcare	Bain Capital Private Equity	Provider of pediatric home health care services	ND	NA	NA
01/12/2017	Excel Companion Care	Help at Home, LLC	Provider of home care services in PA	ND	NA	NA
01/11/2017	SunLife Home Health	Banner Health	Medicare-certified home health agency in Tuscan, AZ	ND	NA	NA
01/10/2017	Home Health Investments, LLC	Jet Health, Inc.	Provides home health services in the Denver Metro region	ND	NA	NA
01/04/2017	Care Advantage, Inc.	BelHealth Investment Partners, LLC	Provides home healthcare nursing services in VA and surrounding areas	ND	NA	NA
01/03/2017	Community Health Systems (NYSE: CYH)	Almost Family, Inc. (Nasdaq:AFAM)	Controlling interest in the home health and hospice assets of CYH	\$128	0.6x	6.5x
01/02/2017	Dallas Hospice, Inc. and Grapevine Mission Hospice, Inc.	Jordan Health Services (Palladium Equity Partners)	Hospice provider in northern TX	ND	NA	NA
01/02/2017	Medistar Home Health, LLC	Jordan Health Services (Palladium Equity Partners)	Home health care provider in LA	ND	NA	NA
01/02/2017	Health Sense Hospice, Inc., Health Sense Home Care, Inc., and Health Sense Home Care of San Antonio, LLC	Jordan Health Services (Palladium Equity Partners)	Hospice and skilled services provider based in Austin and San Antonio, TX	ND	NA	NA

*Announced date; The transaction closed on May 1, 2017.

Notable Transactions and Strategic Rationale

Almost Family Acquires Community Health Systems Home Health and Hospice Operations

Almost Family, Inc. (Nasdaq:AFAM) acquired 74 home health branches in 22 states, along with 15 hospice branches in seven states from Community Health Systems (CHS—NYSE:CYH) for \$128 million, an implied valuation of 0.64x revenue and 6.5x pro-forma EBITDA. Almost Family acquired 80% of CHS's home health and hospice operations. CHS retained a 20% stake with local hospitals to provide protection from risks associated with individual hospital divestitures. The transaction presents many benefits to Almost Family, including a material increase in size and scale, growth opportunities through an enhanced health-system joint venture, and synergy-creation opportunities. For many home healthcare providers, health-system joint ventures are becoming an important go-to-market strategy, since health systems seek partners to help manage post-acute services. Additionally, this joint venture provides for greater clinical alignment between the health system and home health providers. Sharing data and clinical protocols enables earlier identification of appropriate patients and more active and clinically superior patient transmissions to the home.



Amedisys Acquires Six Tenet Healthcare Centers

In March 2017, Amedisys, Inc. (Nasdaq:AMED), one of the nation's leading home healthcare, hospice, and home-care providers, agreed to acquire six Tenet Healthcare (NYSE:THC) home health and hospice operations in Arizona, Illinois, Massachusetts, and Texas, for a purchase price of \$20.5 million. Since December 2015, Amedisys has announced six acquisitions, deploying approximately \$125 million in capital, and contributing to an approximate \$145 million increase in annual revenue. One of many reasons Amedisys was drawn to Tenet Healthcare was THC's mix of 450+ acute-care hospitals and surgery centers and its presence in the ambulatory market. As a result, Amedisys has a significant opportunity to expand with THC over time. In acquiring a large ambulatory surgery center operation a few years ago, both entities are already seeing more patients requiring surgery and procedures using the surgery center instead of the hospital. On discharge from a surgery center, services in the home allow patients to continue receiving therapeutic treatment.



The Ensign Group Acquires Hospice Operations in Prescott Valley, Arizona

Cornerstone Healthcare, Inc., a subsidiary of The Ensign Group, Inc. (Nasdaq:ENSG) representing the portfolio of home health and hospice operations, acquired Hospice of the Pines, a provid-

er servicing Prescott, Sedona, Cottonwood, Dewey, and other communities across Yavapai County, Arizona. Driven by a strategic rationale to continue growing throughout Arizona, this transaction is an opportunity for Cornerstone Healthcare to provide a continuum of care with its existing skilled-nursing and assisted-living facilities in Prescott, and reflects its strategic commitment to expand hospice operations throughout the United States. Ensign Group management confirms the company actively seeks additional opportunities to acquire both well-performing and struggling home health, hospice, and home care operations throughout the U.S.



Jordan Health Services Expands through Multiple Acquisitions

Texas-based Jordan Health Services has completed 13 acquisitions since being acquired by private equity firm Palladium Equity Partners in 2014, including three deals in Q1 2017. These three transactions, two of which consisted of acquiring more than one entity of the seller, included Dallas Hospice, Inc. and Grapevine Mission Hospice, LLC, Medistar Home Health, LLC, and Health Sense Hospice, Inc., Health Sense Home Care, Inc., and Health Sense Home Care of San Antonio, LLC. This active consolidator completed five transactions in late 2016 as well, all driven by the desire to expand its geographic footprint throughout the Southeast and South-Central U.S.



Great Lakes Caring Home Health and Hospice Receives Strategic Investment from Blue Wolf Capital Partners

In late 2016, private equity firm Blue Wolf Capital Partners, LLC made a notable investment in Great Lakes Caring Home Health and Hospice (GLCHH). This transaction represented Blue Wolf's second major acquisition in 2016 (the \$65 million acquisition of National Home Health Care Corporation (NHHHC) was first). NHHHC is a leading provider of home health aides, medical, behavioral health, pediatric-skilled-nursing, rehabilitative-therapy, social-work, paraprofessional, and staffing services in New York, New Jersey, and Connecticut. With more than 2,600 professionals in 25 offices, GLCHH is one of the leading regional providers of home health and hospice services in the Midwest. With a strong capital resource in Blue Wolf Capital, both companies are now well-capitalized and positioned to actively participate in industry consolidation regionally and nationally.



Drivers of Future M&A Activity

EdgePoint believes the home health and hospice segment will continue to experience significant acquisition interest from strategic and financial buyers. According to equity research provided by Craig-Hallum Capital Group Inc., more than 12,000 home health agencies operate today, compared to only 7,000 in 2001. Approximately 98% generate less than \$10 million in annual revenue, and more than 40% serve 100 or fewer patients per year, compared to an industry average of 430. Smaller providers struggle to maintain profitability following the third consecutive year of Medicare payment cuts. The Centers for Medicare and Medicaid (CMS) estimate more than 40% of home health providers will lose money as rebasing is fully implemented through the end of 2017. Similar consolidation occurred in the late 1990's as Medicare transitioned from cost-based reimbursement to prospective payments. During this time, the number of agencies declined from a historical peak of nearly 11,000 in 1997 to fewer than 7,000 by 2001.

According to the U.S. Census Bureau, 19% of Americans will be 65 years of age or older by 2030. Additionally, the number of people age 85 and older is expected to triple by 2050. Home health and hospice care continues to provide a cost advantage relative to facilities-based services. According to the Medpac June 2015 Handbook, the Medicare cost per day for home health services is \$47, compared to \$330 (7 times more) for skilled nursing facilities, and to \$2,346 (49 times more) for an

acute-care hospital. By 2022, CMS projects annual home health expenditures alone will reach \$157 billion, which represents a 7.3% CAGR from 2006 levels.

Healthcare providers, such as Kindred Healthcare Inc. and The Ensign Group, Inc., which were largely facilities-based, are now centering efforts on expanding their home health and hospice platforms to provide a full continuum of care throughout their locations. In 2010, Kindred Healthcare did not have a home health operation. Today home health represents 39% of its total annual revenue. With Medicare spending among home health and hospice services projected to increase by CAGR's of 7.3% and 7.5%, respectively, facilities-based providers are highly motivated to expand these segments by making strategic acquisitions of providers in their existing geographic markets.

Market fragmentation, positive demographics, consumer preferences, and evolving payment-referral models, make home-based care one of the most attractive investment areas within the healthcare industry. Increased regulatory, operating, and technology requirements will continue motivating business owners to explore an exit, and drive the need for increased consolidation. EdgePoint expects a full spectrum of buyers, including publicly-traded, private-equity-backed strategics, and new private equity platforms to continue focusing on growth through an active M&A strategy.

Representative EdgePoint Transactions

Sell-Side Advisory



Providence Home Health Care
has sold to
HCF Home Health Care, Inc.

Buy-Side Advisory




Med XS Solutions
has acquired
Health Quip, LLC

Sell-Side Advisory



TransMotion Medical
has sold to
Winco Mfg., LLC

Sell-Side Advisory



Select Assets of Steris AB
has sold to
An Undisclosed
Private Company

Service Offerings

Sell-Side Advisory

- Third-Party Sale
- Sale to Management
- Recapitalization
- ESOP

Buy-Side Advisory

- Buy-Side Search
- Buy-Side Diligence & Financing
- Targeted Buy-Side
- Management Buyout

Financing Advisory

- Senior & Sub Debt
- Asset Based Lending
- Mezzanine Debt
- Private Placements



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RESULTS *with*
INTEGRITY™