



Quarterly Healthcare Highlights

Sector Focus: Post-Acute Care



Healthcare Industry Developments

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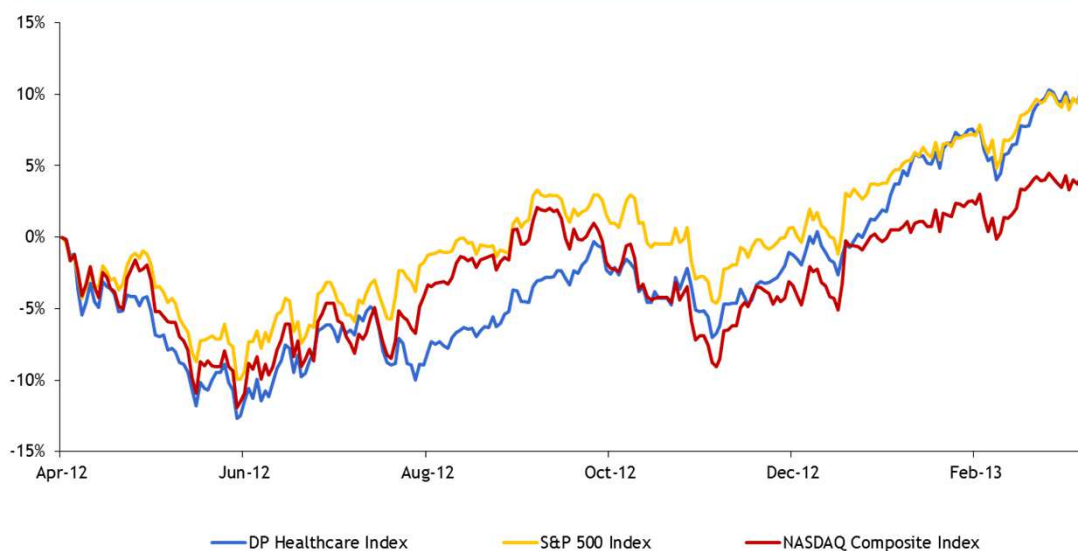
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HEALTHCARE INDUSTRY UPDATE

The healthcare industry has been considerably active in recent months, both on a regulatory front and in regards to corporate finance transaction activity. Provider and payer models are beginning to coincide as the move towards an integrated healthcare delivery system continues to develop. Industry participants are looking to ramp up their acquisition and partnership activity to increase critical mass and attain advantages of scale. Increasing share of the healthcare delivery system and providing better access to care along with increased cost savings will drive acquisition activity in 2013. Integrated delivery networks are being developed by health systems through physician practice acquisitions while enhancing capabilities through the addition of ancillary services, such as ambulatory surgery centers (ASCs) and other alternate site providers.

Industry Returns



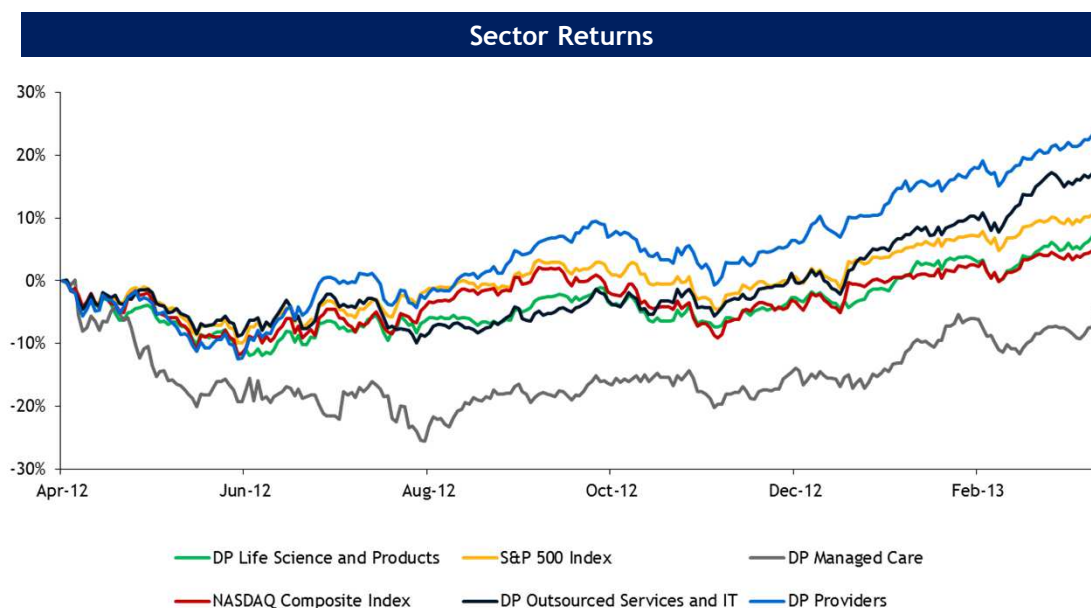
HEALTHCARE CAPITAL MARKETS

Both corporate buyers and private equity firms are flush with capital and seeking quality, synergistic acquisitions. Demand will be driven by demographics (i.e. baby boomers and the aging population) and regulatory changes. The capital markets have shown strong growth, reaching record highs in 1Q 2013. In addition, a significant driver of M&A activity is reliant on the credit markets which remain robust, providing acquisition financing at attractive terms.

Sources: Capital IQ, Wall Street Research



Healthcare Industry Developments



2012 HEALTHCARE M&A REVIEW

Healthcare M&A activity was strong in 2012, accounting for the second highest volume year in the last decade. With the 2012 presidential election, plus all the uncertainty surrounding the fiscal cliff and the federal debt limit, one could have expected the overall healthcare M&A market to be slower than usual. However, 2012 displayed mixed results, with M&A spend down but transaction volume up.

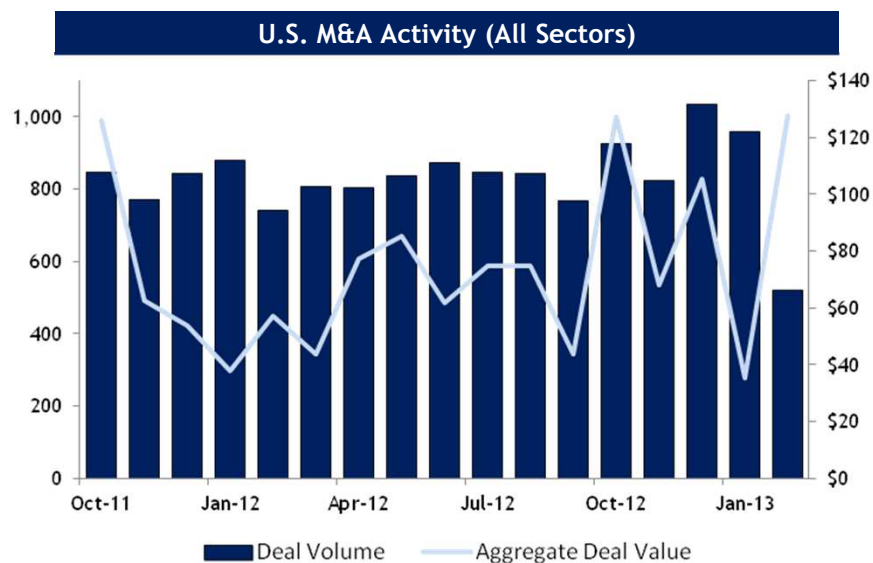
The dollar value of publicly announced M&A transactions across all of health care dropped from \$231 billion in 2011 to \$143 billion in 2012. However, 2012 health care transaction volume was very active with 1,250 closed deals.

The leading healthcare sector in terms of M&A activity in 2012 was healthcare services with 614 transactions, or over half of announced transactions. Within healthcare services, the long-term care segment was most active with 188 transactions, or approximately 1/3 of announced transactions within the healthcare services sector. Life sciences (biotechnology, medical devices and diagnostics) had the highest dollar volume of transactions with \$87 billion (almost 2/3 of deal volume), with the medical device segment being the most active contributor.

Sources: Capital IQ, Irving Levin Associates

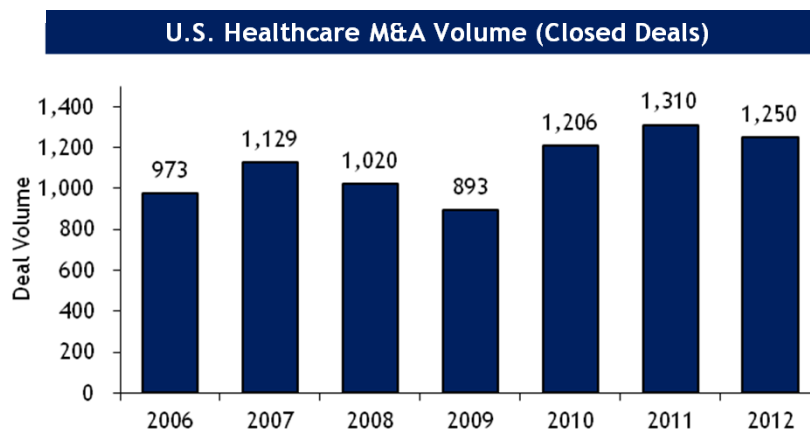


Healthcare Industry Developments



2013 HEALTHCARE M&A OUTLOOK

We are expecting an active M&A market in 2013. The reforms under the Affordable Care Act (ACA) are moving forward with greater risk being shifted to providers, as value-based reimbursement models dictate risk-sharing with incentives geared toward achieving better outcomes at lower cost. Also, the ACA will begin to expand insurance coverage to an estimated 34 million more people in 2014. The healthcare M&A market will benefit from increased investment in healthcare information technology (HCIT), requirements for more efficient delivery of quality care, continued reduction in reimbursement rates, and continuing economic pressures.

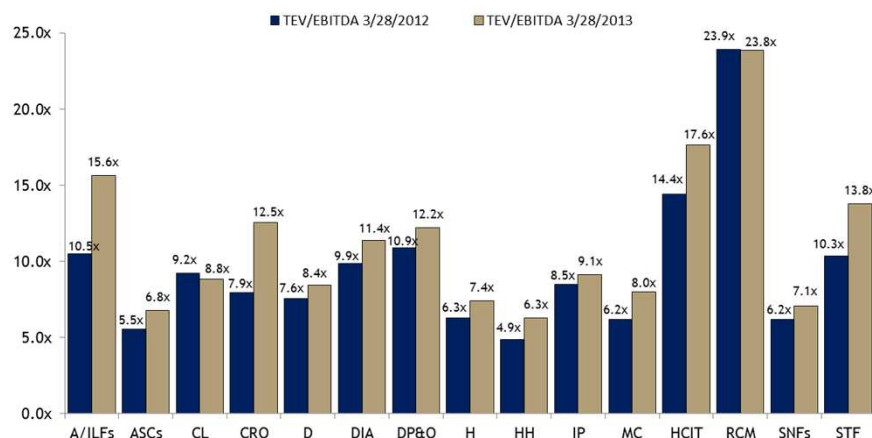


Sources: Capital IQ, FactSet: MergerStat Review, Wall Street Research, WhiteHouse.gov

Healthcare Industry Developments

Public Company Multiples - Healthcare Services / HCIT

A/ILFs - Assisted/Independent Living Facilities
ASCs - Ambulatory Surgical Centers
CL - Clinical Labs
CRO - Contract Research Organization
D - Distribution
DIA - Dialysis
DP&O - Data Processing/Outsourced Services
H - Hospitals
HCIT - Other Healthcare IT
HH - Home Health
IP - Institutional Pharmacy
MC - Managed Care
RCM - Revenue Cycle Management
SNFs - Skilled Nursing Facilities
STF - Healthcare Staffing

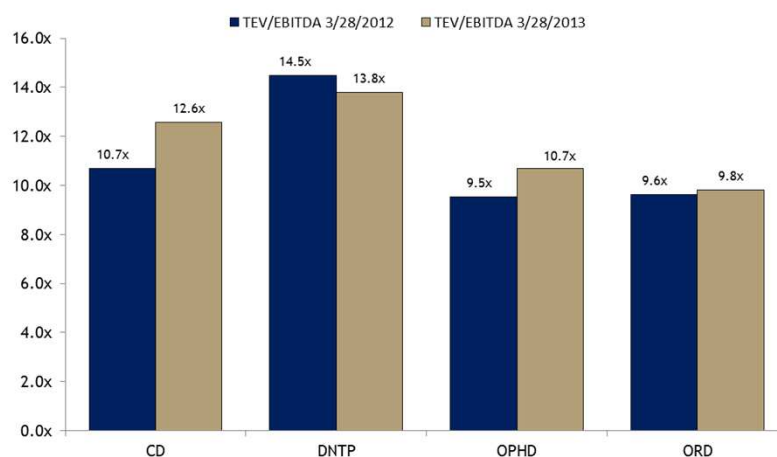


HEALTHCARE IT (HCIT)

Technology continues to play an important role as it allows for closer tracking of medical results and services provided. Providers are beginning to share information seamlessly across care platforms as patients move from home to a hospital to a post-acute facility and back to home. Hospitals and physician practices are working to comply with government mandated Meaningful Use requirements for electronic health records. The industry is rapidly moving toward integrated HCIT platforms that connect clinical and financial systems, with data analytics becoming an important area of focus to improve population health and quality of care. The market for HCIT M&A will remain active with strong interest from both strategic and financial buyers.

Public Company Multiples - Selected Medical Products / Devices

CD - Cardio Devices
DNTP - Dental Products
OPHD - Ophthalmology Devices
ORD - Orthopedic Devices



OVERALL HEALTHCARE OUTLOOK

Both Federal and State governments continue to face difficult challenges and are now in a cycle of spending cuts. The Affordable Care Act, among other issues, aims to cover the majority of the current uninsured population as well as other measures to streamline and lower the ever expanding cost of healthcare. Moreover, the sequestration cuts that hit earlier this year will have an additional financial impact.

Sources: Capital IQ, Wall Street Research



Healthcare Industry Developments

1Q 2013 U.S. Healthcare Transactions

| Closed Date | Target | Buyer | Enterprise Value (TEV) | TEV / Revenue | TEV / EBITDA | Sector |
|-------------|--|---------------------------------------|------------------------|---------------|--------------|---------------|
| Pending | Infirmary Hospice Care, Inc. | LCH Group, Inc. | - | - | - | HC Services |
| Pending | Solari Hospice Care, LLC | VITAS Healthcare Corporation | - | - | - | HC Services |
| Pending | SARcode Bioscience, Inc. | Shire plc | \$160.0 | - | - | Biotech |
| Pending | Obagi Medical Products, Inc. | Valeant Pharmaceuticals International | \$323.5 | 2.5x | 13.9x | Pharma |
| Pending | Palomar Medical Technologies Inc. | Cynosure, Inc. | \$208.9 | 2.4x | 32.7x | HC Equip. |
| Pending | Althea Technologies, Inc. | Ajinomoto Co., Inc. | \$175.0 | 3.3x | - | Pharma |
| Pending | Baxano, Inc. | TranS1, Inc. | \$23.6 | 2.5x | - | HC Equip. |
| Pending | Assisted Living Concepts Inc. | TPG Capital, L.P. | \$449.4 | 2.0x | 11.3x | HC Services |
| Pending | Cylex, Inc. | ViraCor Laboratories, L.L.C. | \$13.5 | - | - | Life Sciences |
| Pending | Lotus Tissue Repair, Inc. | Shire plc | - | - | - | Biotech |
| 03/19/2013 | Atlantis Healthcare Group Puerto Rico, Inc. | ICV Partners | - | - | - | HC Services |
| 03/14/2013 | Complete Genomics, Inc. | BGI | \$90.2 | 2.5x | - | Life Sciences |
| 03/12/2013 | Flexible Stenting Solutions, Inc. | Cordis Corporation | - | - | - | HC Equip. |
| 03/04/2013 | Proventiv Therapeutics, L.L.C. | Opko Health, Inc. | \$299.0 | - | - | Pharma |
| 03/01/2013 | BioMimetic Therapeutics Inc. | Wright Medical Group Inc. | \$332.7 | - | - | Biotech |
| 03/01/2013 | Qualicaps Co., Ltd. | Mitsubishi Chemical Holdings Corp. | \$658.1 | - | - | Pharma |
| 02/28/2013 | Addus HealthCare, Inc., Home Health Business | LHC Group, Inc. | \$20.0 | - | - | HC Services |
| 02/28/2013 | MAP Pharmaceuticals, Inc. | Allergan Inc. | \$845.0 | 10.6x | - | Pharma |
| 02/27/2013 | 100Plus | Practice Fusion, Inc. | - | - | - | HCIT |
| 02/26/2013 | Sound Surgical Technologies LLC | Solta Medical, Inc. | \$39.9 | 1.7x | 19.9x | HC Equip. |
| 02/22/2013 | PSS World Medical Inc. | McKesson Corporation | \$1,819.0 | 1.0x | 11.8x | Distributors |
| 02/21/2013 | Verinata Health, Inc. | Illumina Inc. | \$450.0 | - | - | HC Equip. |
| 02/21/2013 | Longhorn Health Solutions Inc. | Satori Capital, L.L.C. | - | - | - | Distributors |
| 02/15/2013 | King Systems Corporation | Ambu A/S | \$170.0 | 1.2x | - | HC Equip. |
| 02/12/2013 | Mediq NV | Advent International Corporation | \$1,242.5 | 0.3x | 6.8x | Distributors |
| 02/01/2013 | HomeChoice Partners, Inc. | BioScrip Inc. | \$90.0 | 1.3x | - | HC Services |
| 02/01/2013 | Grass Technologies Corporation | Natus Medical Inc. | \$18.6 | 1.0x | - | HC Equip. |
| 01/31/2013 | Equinox Healthcare, Inc. | AxelaCare Health Solutions, LLC. | - | - | - | HC Services |
| 01/31/2013 | Young Innovations Inc. | Linden LLC | \$305.4 | 2.7x | 9.8x | HC Equip. |
| 01/30/2013 | BioClinica, Inc. | JLL Partners | \$104.9 | 1.3x | 10.2x | HC Services |
| 01/30/2013 | CoreLab Partners, Inc. | JLL Partners | - | - | - | HC Services |
| 01/18/2013 | Molecular Insight Pharmaceuticals, Inc. | Progenics Pharmaceuticals, Inc. | \$105.9 | - | - | Biotech |
| 01/17/2013 | Callisto Pharmaceuticals, Inc. | Synergy Pharmaceuticals, Inc. | \$132.5 | - | - | Biotech |
| 01/15/2013 | NDS Surgical Imaging, LLC | GSI Group Inc. | \$82.5 | - | - | HC Equip. |
| 01/10/2013 | Diamondback Drugs, LLC | Sheridan Legacy Group | - | - | - | Drug Retail |
| 01/09/2013 | Sunrise Senior Living Inc. | Health Care REIT, Inc. | \$1,413.9 | 1.1x | 10.4x | HC Services |
| 01/08/2013 | Dermatology Associates of Tyler | Candescent Partners, LLC | - | - | - | HC Services |
| 01/07/2013 | Epocrates, Inc. | Athenahealth, Inc. | \$216.2 | 2.0x | 38.2x | HCIT |
| 01/07/2013 | TractManager, Inc. | Arsenal Capital Partners | - | - | - | HCIT |
| 01/07/2013 | Pacific Interpreters, Inc. | LL Services, Inc. | - | - | - | HC Services |
| 01/04/2013 | Seacoast Eye Associates Inc. | Koch Eye Associates, Inc. | - | - | - | HC Services |
| 01/04/2013 | CareAnywhere, Inc. | Brightree, LLC | - | - | - | HCIT |
| 01/04/2013 | Corin Group plc | Hunt Capital S.A. | \$54.5 | 0.7x | 4.8x | HC Equip. |
| 01/03/2013 | GetWellNetwork, Inc. | Welsh, Carson, Anderson & Stowe | - | - | - | HCIT |
| 01/03/2013 | ATG Rehab Inc. | United Seating & Mobility, LLC | - | - | - | HC Equip. |
| 01/02/2013 | National Seating & Mobility, Inc. | Wellspring Capital Management LLC | - | - | - | HC Equip. |
| 01/02/2013 | Lakeview Health Systems, LLC | Trinity Hunt Partners | - | - | - | HC Services |

Source: Capital IQ



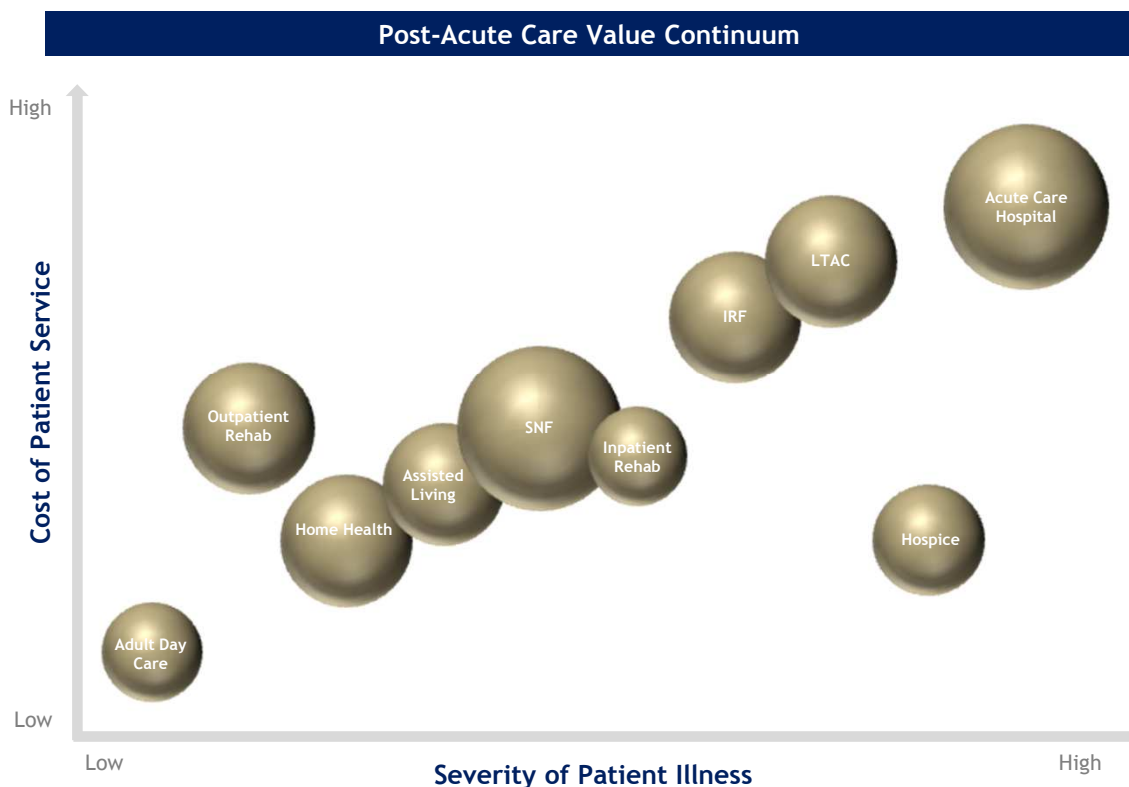
Healthcare Industry Developments

SECTOR FOCUS: POST-ACUTE CARE

POST-ACUTE CARE UPDATE

The post-acute care industry has been a perpetual target for reimbursement cuts and Medpac continues to recommend reductions. The post-acute care value continuum represents the drive to move patients down the post-acute chain from costly hospital stays to more cost-efficient care in outpatient facilities and the home environment. Increased value is being assigned to those companies that can provide solutions to managing the cost of the 25% of the population that makes up 83% of total healthcare expenditures.

We are seeing robust M&A interest from a variety of types of strategic players looking to acquire entities throughout the post-acute spectrum. No longer are SNFs just being acquired by SNFs and home health agencies being solely acquired by other home health agencies. Now the interested parties have expanded to hospitals and health systems trying to increase their market share and delivery system, as well as SNFs acquiring ancillary operations to diversify and attempt to minimize reimbursement risk. Also, selected REITs and other real estate players have shown an increased appetite for not just owning the real estate but also in owning and managing the operating entities themselves.



Sources: Wall Street Research, MedPAC



Healthcare Industry Developments

Skilled Nursing

SKILLED NURSING UPDATE

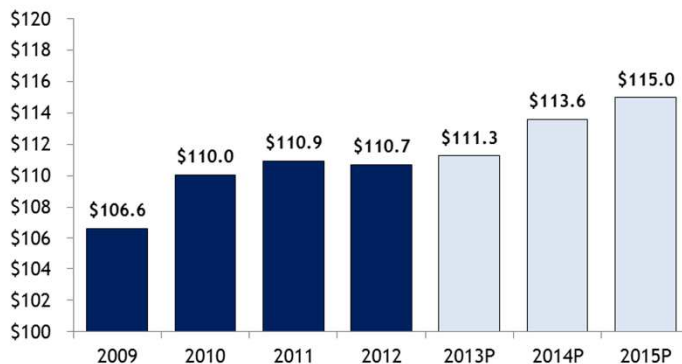
Nursing care facilities represent an approximate \$100 billion revenue sector with over 40,000 nursing facilities in the United States. Medicare and Medicaid reimbursements make up 76% of nursing care facility revenues, with Medicaid accounting for 49% and Medicare for 27%.

It is most advantageous for SNFs to operate in a state with a favorable Certificate of Need (CON) program, which are aimed at restraining the number of new facilities and coordinating planning of new services and construction. SNFs in states that do not have CON programs, such as Colorado and Texas, are typically valued at lower multiples due to the lower barriers of entry.

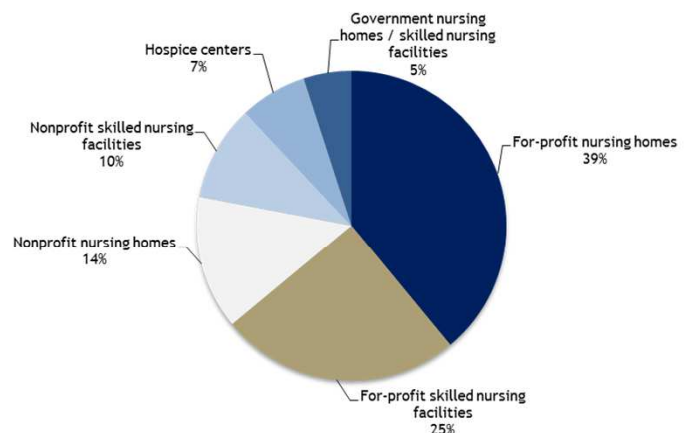
MedPAC, CMS, Congress and other regulatory bodies have all proposed various means of cost-containment within the SNF sector, from bundling of services to payment based on patient outcome (rather than cost and/or patient condition) to incentivizing clinically complex (and more costly to treat) patients over rehabilitation patients. As the economy recovers, state governments have been subjected to far greater funding shortfalls than the Federal government. As states seek to balance budgets (without the ability to run a deficit), Medicaid budgets should continue to face substantial pressure going forward.

Taking all these issues into consideration, the M&A landscape remains highly competitive. Strategic SNFs and selected private equity players continue to seek opportunities to acquire both well-performing and struggling long-term care facilities but acquisition prices remain highly competitive, particularly for portfolio deals. However, prices for single or small groups of underperforming facilities still show room for opportunistic growth.

Nursing Facilities Industry Revenues (Billions)



Nursing Facilities Industry Segmentation



Sources: Wall Street Research, IBIS World, CMS, MedPAC, American Health Care Association

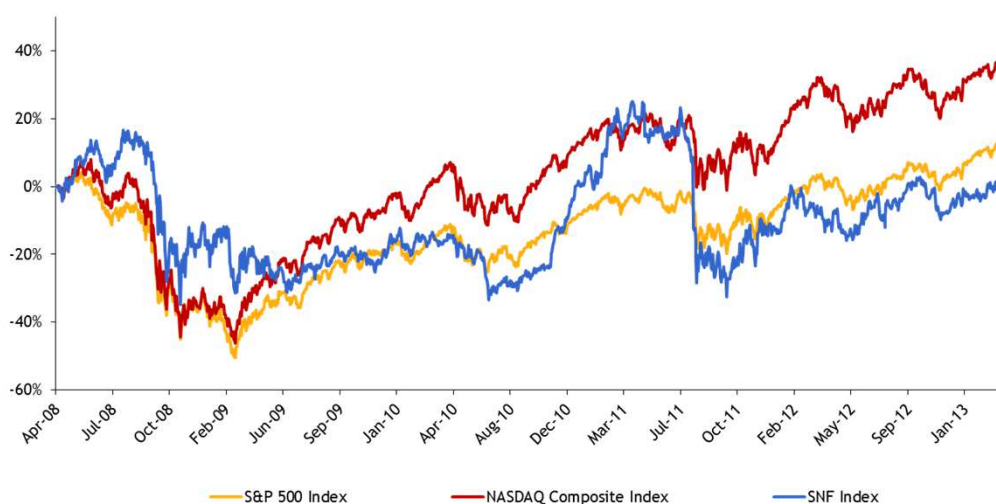


Healthcare Industry Developments

Skilled Nursing

| SNF Comparable Company Valuations | | | | | | |
|--------------------------------------|--------|---------|---------|---------|--------|-----------|
| (\$ in millions) | Market | | Adj. | TEV/ | TEV/ | Adj. TEV/ |
| Company Name | Cap | TEV | TEV | Revenue | EBITDA | EBITDAR |
| Kindred Healthcare Inc. | \$561 | \$2,122 | \$5,541 | 0.3x | 4.9x | 6.4x |
| The Ensign Group, Inc. | \$727 | \$893 | \$1,003 | 1.1x | 7.3x | 7.4x |
| National Healthcare Corp. | \$646 | \$653 | \$968 | 0.9x | 6.8x | 7.1x |
| Skilled Healthcare Group, Inc. | \$258 | \$705 | \$853 | 0.8x | 7.1x | 7.3x |
| Diversicare Healthcare Services Inc. | \$30 | \$62 | \$253 | 0.2x | 7.3x | 7.8x |
| AdCare Health Systems Inc. | \$59 | \$227 | \$227 | 1.1x | 12.4x | NA |
| Mean | \$380 | \$777 | \$1,474 | 0.7x | 7.6x | 7.2x |
| Median | \$409 | \$679 | \$910 | 0.8x | 7.2x | 7.3x |
| High | \$727 | \$2,122 | \$5,541 | 1.1x | 12.4x | 7.8x |
| Low | \$30 | \$62 | \$227 | 0.2x | 4.9x | 6.4x |

Indexed SNF vs. S&P 500 vs. NASDAQ



Source: Capital IQ



Healthcare Industry Developments

Senior Living

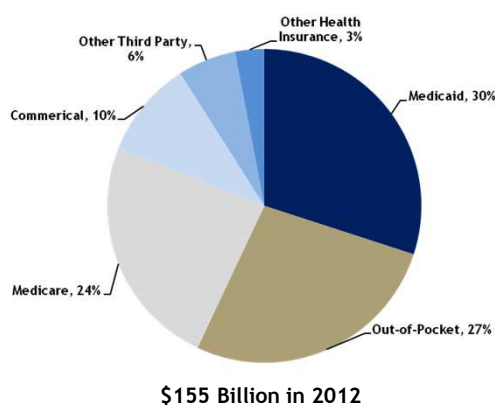
SENIOR LIVING (ALFs, ILFs & CCRCs) UPDATE

The senior living industry includes assisted living facilities (ALFs), independent living facilities (ILFs) and continuing care retirement communities (CCRCs). Favorable demographic trends from an aging population, with baby boomers leading the way, will support future demand for senior housing. According to Census data, the number of individuals 65 or over was 40 million in 2010. The number of Americans over 65 is expected to rise by 77.6% by 2030, while overall population growth will be just 17.7%. That will result in those over 65 years old increasing as a percentage of population from 13.0% in 2010 to 19.7% in 2030.

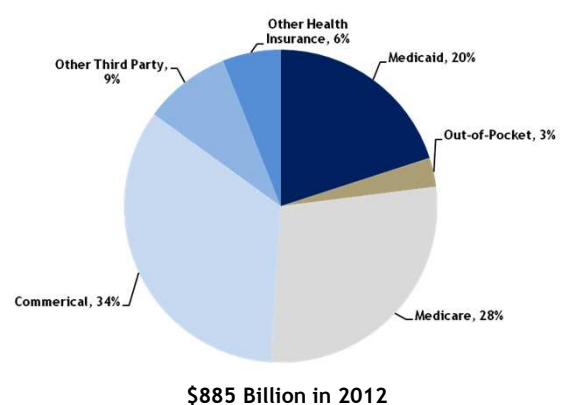
Senior living occupancy is strong; however, in the longer term, seniors could have a more limited ability to enter senior housing. Senior housing (and especially independent living) is increasingly becoming a luxury good given lower savings from a stagnant economy and weak interest rates.

The senior housing market in the United States is highly fragmented, and consolidation and transaction opportunities should continue given the favorable financing environment.

SNF & CCRC Payments by Source



Hospital Payments by Source



Sources: Wall Street Research, CMS, U.S. Census Bureau, American Association of Homes and Services for the Aging

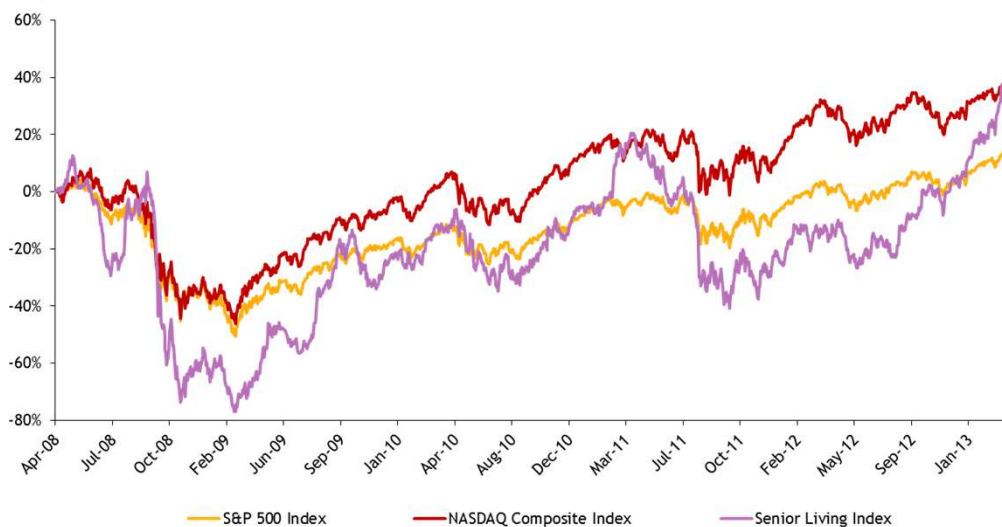


Healthcare Industry Developments

Senior Living

| ALFs/ILFs Comparable Company Valuations | | | | | | |
|---|---------|---------|---------|---------|--------|-----------|
| (\$ in millions) | Market | | Adj. | TEV/ | TEV/ | Adj. TEV/ |
| Company Name | Cap | TEV | TEV | Revenue | EBITDA | EBITDAR |
| Brookdale Senior Living Inc. | \$3,422 | \$6,034 | \$8,306 | 2.5x | 16.1x | 12.6x |
| Emeritus Corp. | \$1,278 | \$5,246 | \$6,264 | 3.8x | 20.8x | 16.5x |
| Five Star Quality Care Inc. | \$323 | \$352 | \$1,966 | 2.0x | 11.0x | 10.3x |
| Capital Senior Living Corp. | \$725 | \$1,111 | \$1,585 | 3.6x | 22.3x | 14.5x |
| Assisted Living Concepts Inc. | \$276 | \$446 | \$553 | 2.0x | 11.0x | 10.3x |
| Mean | \$1,205 | \$2,638 | \$3,735 | 2.8x | 16.2x | 12.8x |
| Median | \$725 | \$1,111 | \$1,966 | 2.5x | 16.1x | 12.6x |
| High | \$3,422 | \$6,034 | \$8,306 | 3.8x | 22.3x | 16.5x |
| Low | \$276 | \$352 | \$553 | 2.0x | 11.0x | 10.3x |

Indexed Senior Living vs. S&P 500 vs. NASDAQ



Source: Capital IQ



Healthcare Industry Developments

Rehabilitation

REHABILITATION UPDATE

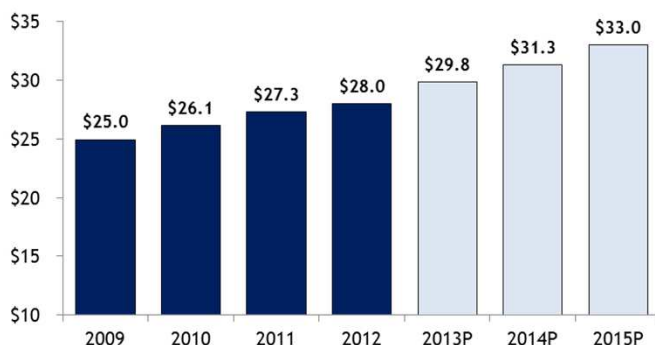
The rehabilitation industry is highly fragmented, with around 30,000 establishments accounting for approximately \$28 billion in annual U.S. sales. The industry is segmented into three primary classifications, physical therapy, occupational therapy and speech language pathology. Physical therapy is the diagnosis and treatment of physical impairments, functional limitations, disabilities or changes in physical function and health status. Occupational Therapy deals with the treatment to improve or restore impaired functions caused by illness or injury. Speech Language Pathology is the diagnosis and treatment of speech and language disorders. The aging of the baby boomer generation is expected to increase demand for physical therapy and short-term post-acute rehabilitation treatments over the next twenty years.

Inpatient rehabilitation facilities cover patients who need intensive rehabilitation after an illness, injury or surgical procedure and are typically housed in hospital-based units. Medicare accounts for about 60% of total cases.

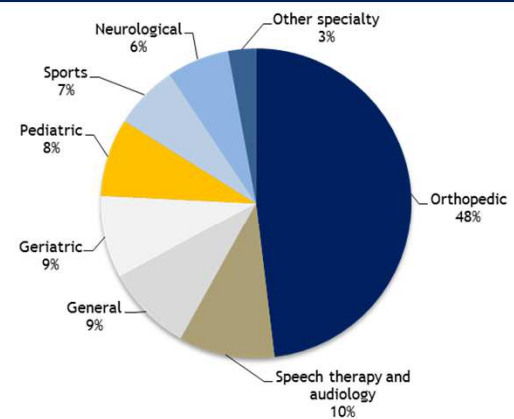
Outpatient therapy services are designed to help the patient improve physical function while preventing any issues in the future. These services can be carried out in many settings such as physician offices, nursing homes, outpatient rehab units and even in the home.

Medicare reimbursement for outpatient physical therapy services is expected to be reduced in 2013 through measures enacted in the recent fiscal cliff bill. This incremental rate reduction should increase financial and operating pressures on smaller, less-efficient outpatient PT providers and help accelerate sector consolidation.

Rehab Industry Revenues (Billions)



Rehab Industry Segmentation



Sources: Wall Street Research, IBIS World

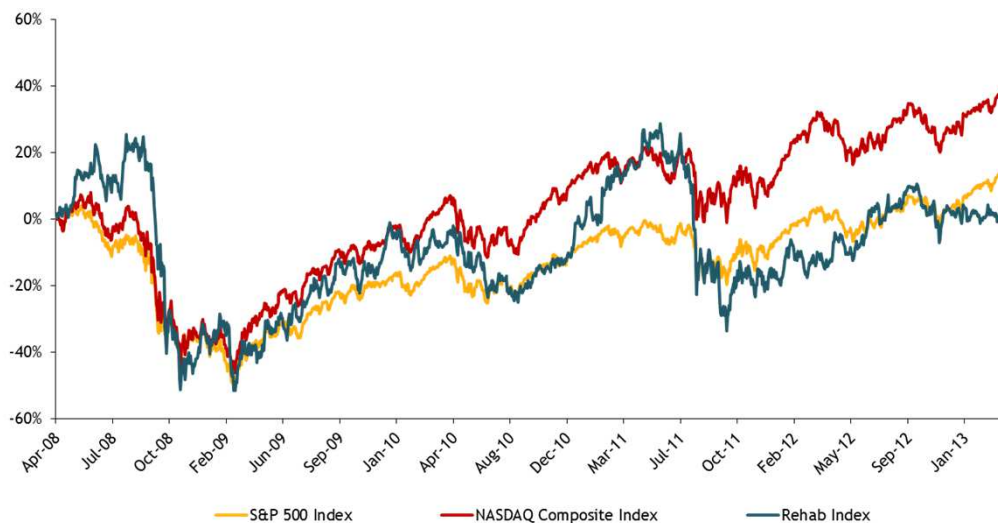


Healthcare Industry Developments

Rehabilitation

| Rehabilitation Comparable Company Valuations | | | | | | |
|--|---------|---------|----------|--------------|-------------|-------------------|
| (\$ in millions) | Market | | | | | |
| Company Name | Cap | TEV | Adj. TEV | TEV/ Revenue | TEV/ EBITDA | Adj. TEV/ EBITDAR |
| Kindred Healthcare Inc. | \$561 | \$2,122 | \$5,541 | 0.3x | 4.9x | 6.4x |
| HEALTHSOUTH Corp. | \$2,542 | \$4,117 | \$4,610 | 1.9x | 8.3x | 8.2x |
| Select Medical Holdings Corporation | \$1,262 | \$2,749 | \$4,096 | 0.9x | 6.9x | 7.2x |
| US Physical Therapy Inc. | \$324 | \$348 | \$514 | 1.4x | 8.0x | 8.0x |
| Mean | \$1,172 | \$2,334 | \$3,690 | 1.1x | 7.0x | 7.5x |
| Median | \$912 | \$2,436 | \$4,353 | 1.2x | 7.5x | 7.6x |
| High | \$2,542 | \$4,117 | \$5,541 | 1.9x | 8.3x | 8.2x |
| Low | \$324 | \$348 | \$514 | 0.3x | 4.9x | 6.4x |

Indexed Rehab vs. S&P 500 vs. NASDAQ



Source: Capital IQ



Healthcare Industry Developments

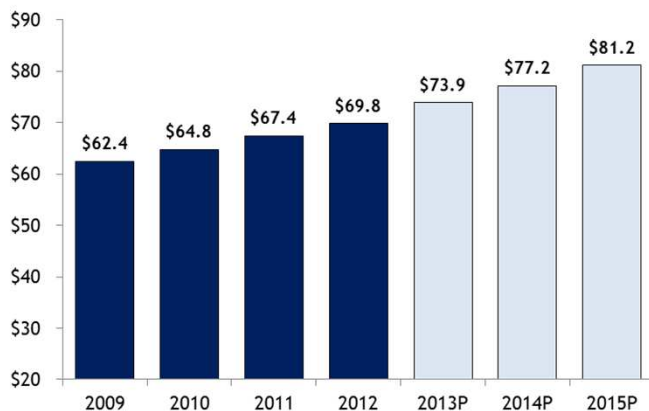
Home Healthcare

HOME HEALTHCARE UPDATE

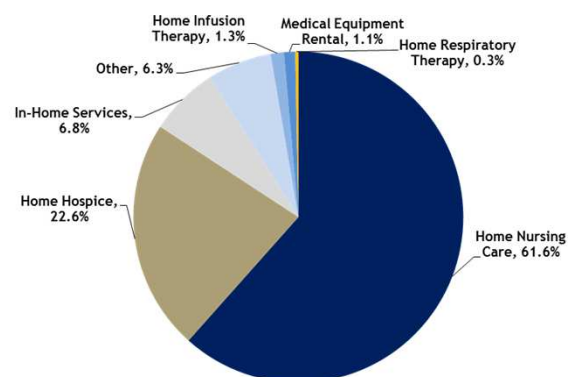
The home health industry focuses on providing medical and nonmedical services to patients in the home. This market, as a whole, is largely driven by patients ages 65 and older, who contribute 70-75% of the \$70 billion revenue in the market. Growth is expected in this industry as the number of people over age 65 is projected to increase from approximately 40 million in 2010 to 88.5 million in 2050. The number of people over age 65 with impairments or limitations is estimated to increase as well from approximately 14 million today to more than 28 million in 2030. As much as 82% of mid-life or older Americans prefer not to move from home if they need help caring for themselves. As the U.S. senior citizen population increases, there will be greater demand for non-medical in-home services, as well as skilled nursing and rehabilitative services. Regulatory scrutiny on hospital readmittance will lead to increased demand for lower cost alternatives, including home health.

Home healthcare provides an attractive, lower cost option for post-acute services. Approximately 15% of those discharged from a hospital enter a home healthcare environment. This is the most common setting for those released from another post-acute care setting, including those that previously enrolled in a facility-based provider. Only 2% of home care patients are discharged to another post-acute care provider.

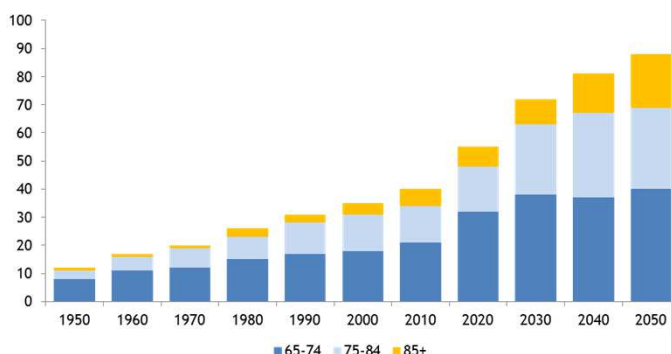
Home Care Industry Revenues (Billions)



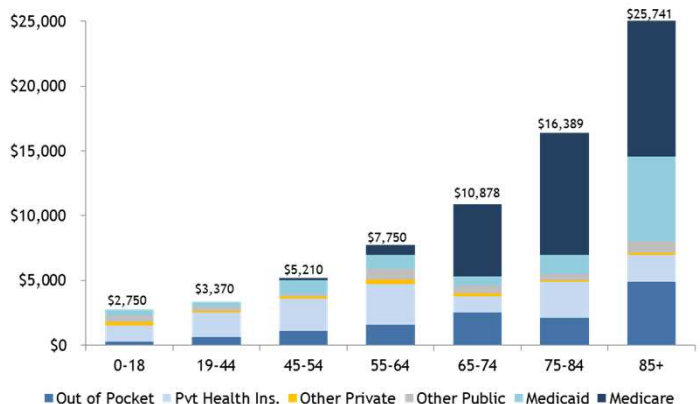
Home Care Industry Segments



Population By Age Group (Millions)



Per Capita Health Care Spend By Age Group



Sources: IBIS World, U.S. Census Bureau, American Assoc of Homes and Services for the Aging, Health Dimensions Group, The Future of Disability of America



Healthcare Industry Developments

Home Healthcare

The home health sector is a highly fragmented industry, consisting of mostly small private companies. Industry participants primarily compete based on the availability of personnel, quality and value of service, and expertise of staff. Home health operators have expanded service offerings along the post-acute care continuum by adding service offerings to allow for additional growth and synergy opportunities, including hospice care, long-term acute care, medical supplies and personal care services. The four largest publicly-traded home health providers (Gentiva, Amedisys, LHC Group and Almost Family) account for just over 10% of the market.

To keep pace with the expected increase in the aging population, the number of Medicare certified home health agencies has increased significantly from approximately 7,000 in 2002 to approximately 12,000 in 2011. Approximately 60% of home health agencies are freestanding for-profit locations. There are also a number of hospital-based home health agencies, which account for approximately 12% of the industry, while not-for-profit home health agencies accounted for 11% of home health agencies.

Medicare is the largest payor for home health services, and is projected to continue to be the leading payor, given the current aging population. Medicaid is the second largest payor representing 24% of home health expenditures. Recently, developing home and community-based service alternatives to institutional care has been a priority for Medicaid programs due to the consumer demands and cost benefits. Commercial Payor Contracts are the other major payors for home health services. Commercial contracts are similar to Medicare and Medicaid payment methods as the providers negotiate discounted fee structures or fixed amounts for services, rather than paying a billed amount.

There have been a number of recent regulatory changes that significantly impact the home health industry. In 2011, Medicare implemented a new face-to-face encounter requirement as mandated by the Affordable Care Act. The law states that a physician must document that he/she had a face-to-face visit with a patient, before certifying the patient's eligibility for home health care. There has also been increased scrutiny on hospital readmissions. As a part of the Patient Protection and Affordable Care Act (PPACA), hospitals face a reimbursement penalty for excessive preventable hospital readmissions.

| Home Health Comparable Company Valuations | | | | |
|---|--------|---------|---------|--------|
| (\$ in millions) | Market | | TEV/ | TEV/ |
| Company Name | Cap | TEV | Revenue | EBITDA |
| Gentiva Health Services Inc. | \$334 | \$1,064 | 0.6x | 5.8x |
| Amedisys Inc. | \$349 | \$439 | 0.3x | 4.9x |
| LHC Group, Inc. | \$378 | \$403 | 0.6x | 6.4x |
| Almost Family Inc. | \$191 | \$166 | 0.5x | 5.3x |
| Addus HomeCare Corporation | \$143 | \$157 | 0.6x | 8.9x |
| Mean | \$279 | \$446 | 0.5x | 6.3x |
| Median | \$334 | \$403 | 0.6x | 5.8x |
| High | \$378 | \$1,064 | 0.6x | 8.9x |
| Low | \$143 | \$157 | 0.3x | 4.9x |

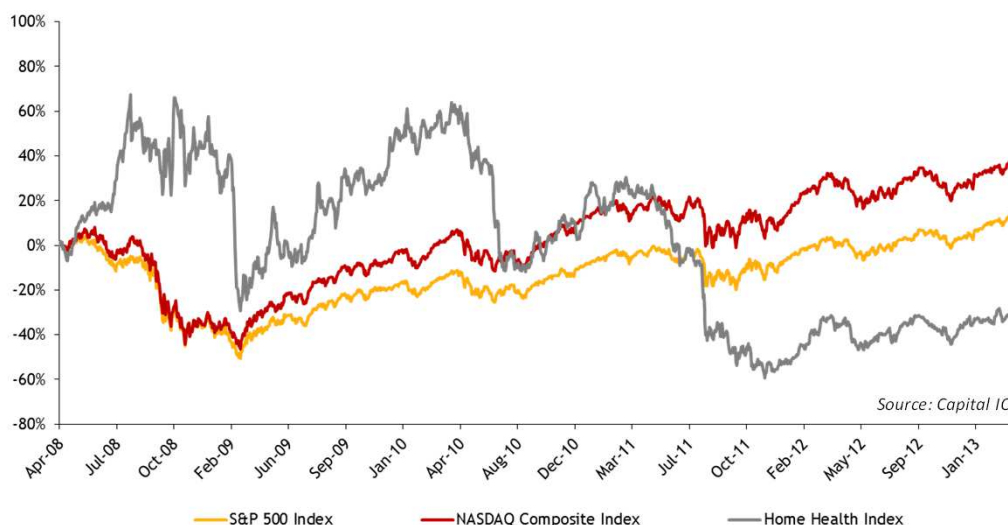
Sources: Capital IQ, CMS, Wall Street Research



Healthcare Industry Developments

Home Healthcare

Indexed Home Health vs. S&P 500 vs. NASDAQ



Home healthcare providers continue to face downward pressure on reimbursement rates. Regulators cut Medicare reimbursement by 5% in 2011. Sequestration also contains 2% cuts in Medicare payments. The downward pressure on reimbursement rates offer an opportunity for industry consolidation. Efficient providers will be able to afford to offer their services amidst narrow reimbursement rates.

In October of 2012, Medicare began to penalize thousands of hospitals due to excess readmissions. The maximum penalty will increase after this initial year to 2% of regular payments starting in October 2013 and then 3% in 2014. This may have a positive impact on home health providers as hospital systems will look to fully engage home health and hospice providers that can demonstrate the ability to keep patients out of the hospital and avoid the readmission penalty.

Nonmedical in-home services segment makes up approximately \$4.7 billion, or 6.8%, of the industry's \$69.8 billion revenue. Nonmedical services include homemaker, companion, cleaning, cooking and other personal care services. These patients are typically declining in health and mobility, but have not yet been admitted to a long-term care nursing facility.

Another aspect of the home healthcare industry is durable medical equipment ("DME"), which includes instruments and products used for medical purposes and that can withstand repeated usage. The DME market includes home respiratory therapy, home infusions, diabetes supplies, patient positioning, patient mobility, as well as other equipment. In 2010, the DME market reached \$26.0 billion and is expected to grow 6% annually to \$31.0 billion by 2013. The DME market is highly fragmented with more than 100,000 players.

Providers can consolidate the marketplace through acquisitions, achieving synergies and offering a more comprehensive scope of home health services.

Sources: American Healthcare Association, Stanford Center on Longevity, MedPAC, Congressional Budget Office baseline reports, and MarketResearch.com



Healthcare Industry Developments

Dresner Partners Healthcare Group

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