



HOME HEALTHCARE INDUSTRY UPDATE Q2-2009

INDUSTRY UPDATE

Merger and acquisition activity continued during the second quarter of 2009, with eight transactions having been announced and/or completed. As in previous quarters, the consolidation was led by the industry's leading publicly-traded providers. Of these, LHC Group was the most active, expanding its presence in three Certificate of Need (CON) states through four transactions. Competitors Gentiva Health Services and Almost Family completed acquisitions during the quarter as well, with Gentiva expanding its presence in Louisiana through its acquisition of Mid-State Home Health and Almost Family expanding its presence in Florida through its acquisition of the assets of home health agencies affiliated with Central Florida Health Alliance.

Merger and acquisition activity will continue in 2009, but likely at a slower, more cautious pace. The healthcare reform debate, and the need to pay for healthcare reform without adding to the federal deficit in particular, has resulted in substantial concern over the future of Medicare home health reimbursement. This has caused buyers to focus their acquisition efforts on smaller acquisition targets as opposed to larger, platform-caliber acquisitions. Buyers will likely continue to pursue small and medium sized agencies until the reimbursement outlook is more certain.

TOP STRATEGIC PLAYERS TO WATCH

- **Amedisys, Inc.** (NASDAQ: AMED)
- **Gentiva Health Services, Inc.** (NASDAQ: GTIV)
- **LHC Group, Inc.** (NASDAQ: LHCG)
- **Almost Family, Inc.** (NASDAQ: AFAM)

HEALTHCARE REFORM UPDATE

During the second quarter, President Obama intensified his efforts to overhaul the nation's healthcare system. The healthcare reform debate dominated the quarter, as every House and Senate committee with jurisdiction over the issue raced to create its own reform bill. Conflict was abundant, as liberal Democrats clashed with Republicans and even with fiscally conservative Democrats. The debate centered on several issues, the most important of which were the cost of healthcare reform and the public health plan option President Obama supports.

In the House, the three committees with jurisdiction over healthcare reform, the Ways & Means, Energy & Commerce, and Education & Labor committees, worked together to create a single joint reform bill. In the Senate, the Health, Education, Labor, and Pensions (HELP) Committee and the Senate Finance Committee worked on separate bills. The provisions of these reform bills vary, but one thing they all have in common is their hefty price tags. Each would cost in excess of \$1 trillion over ten years, and even at that price some fall far short of extending coverage to the 46 million uninsured Americans who need it.

Perhaps of greater concern than the cost, however, is how the House and Senate committees plan to finance their respective bills without adding to the federal deficit. In addition to various tax increases and other measures, both the House and Senate are considering significant cuts to Medicare reimbursement to help offset the cost. In the House bill, for example, these include approximately \$51 billion in cuts over 10 years to home health reimbursement.

Concerns over cost have dramatically slowed the pace of healthcare reform, which proceeded at near break-neck speed during much of the quarter, and it now appears clear that the battle over healthcare reform will continue well into the summer at the very least.

RECENT TRANSACTIONS

Month	Acquirer	Company Acquired	Details
June 2009	Gentiva Health Services, Inc.	Mid-State Home Health	On June 24, Gentiva Health Services, Inc. announced that it had acquired Alexandria, Louisiana-based Mid-State Home Health. The acquired company currently serves eleven parishes in Louisiana, none of which are part of Gentiva's existing service area in the state. Terms of the transaction were not disclosed.
June 2009	LHC Group, Inc.	Joint Venture with East Alabama Medical Center	On June 2, LHC Group announced that it had entered into a home health joint venture with Opelika, Alabama-based East Alabama Medical Center. The joint venture's service area covers five counties in Alabama, a CON state. The Auburn, Alabama-based home health agency generated approximately \$2.7 million in revenue for the most recent twelve month period.
June 2009	LHC Group, Inc.	Joint Venture with Methodist Hospital	On June 2, LHC Group announced that it had completed its previously announced home health joint venture with Methodist Hospital in Kentucky. The joint venture's service area covers three counties in Kentucky, a CON state. The Henderson, Kentucky-based home health agency generated approximately \$3 million in revenue for the most recent twelve month period.
May 2009	Almost Family, Inc.	Home Health Agencies Affiliated with Central Florida Health Alliance	On May 27, Almost Family, Inc. announced that it had agreed to acquire the assets of the Medicare-certified home health agencies affiliated with Central Florida Health Alliance (CHFA), a not-for-profit healthcare system that operates home health branches in Leesburg and The Villages. The acquired operations generated approximately \$4.5 million in revenue during their most recent fiscal year. The transaction is expected to close in June. Terms of the transaction were not disclosed.
May 2009	Oxford HealthCare of Mid-Missouri	Sinclair Home Care	On May 20, Oxford HealthCare of Mid-Missouri announced it is finalizing an agreement to acquire Columbia, Missouri-based Sinclair Home Care by July 1. Sinclair Home Care is a Medicare-certified provider of home health services with approximately 140 home health patients.
May 2009	LHC Group, Inc.	Central Basin Home Health & Hospice	On May 5, LHC Group announced that it had acquired 100% of the assets of Moses Lake, Washington-based Central Basin Home Health & Hospice. The acquired company services three counties in the state of Washington and had \$1.3 million in revenue for the most recent twelve month period. This acquisition expands LHC Group's presence in Washington, a CON state.
April 2009	Aspirus Keweenaw Hospital & Aspirus VNA	Keweenaw Home Nursing and Hospice	On April 29, Wausau, Wisconsin-based Aspirus Keweenaw Hospital & Aspirus VNA announced the acquisition of Keweenaw Home Nursing and Hospice effective June 1. The terms of the transaction were not disclosed.
April 2009	LHC Group, Inc.	Joint Venture with North Mississippi Medical Center-Hamilton	On April 1, LHC Group announced that it had entered into a home health joint venture with North Mississippi Medical Center-Hamilton. The service area of this joint venture covers six counties in Alabama, a CON state. The Hamilton, Alabama-based home health agency generated approximately \$900,000 in revenue for the most recent twelve month period.