



## Q2-2011 HOSPICE SERVICES INDUSTRY UPDATE

### M&A Update

This quarter's deal activity slowed down relative to Q1's high transaction volume as investors allowed acquisitions plans to roll-over into the New Year following Obama's decision to extend the Bush-era tax cuts. Strategic buyers dominated Q2's deal activity as players like The Ensign Group and Amedisys are looking to expand into new markets while fortifying their current geographic strongholds.

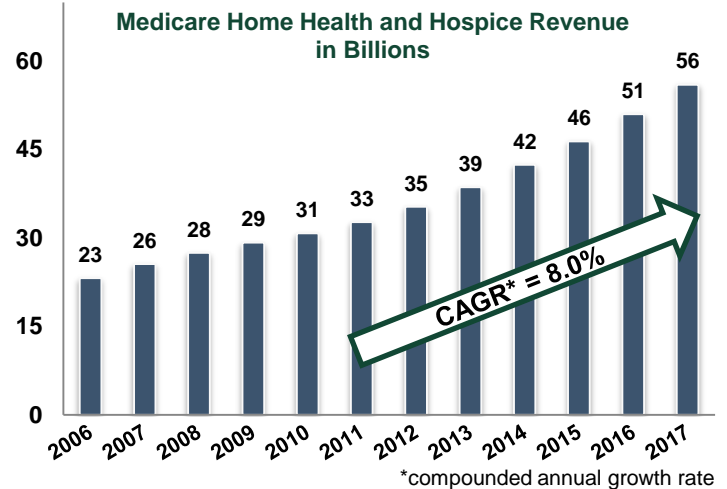
Hospice continues to remain popular not only in the strategic market, but also in the financial buyer market as well. With private equity (PE) overhang at approximately \$376 billion, equity sponsors still have an abundance of capital raised from 2004 to 2008. With the typical investment horizon of PE funds spanning five to seven years, their investment window is closing. PE firms will be actively seeking investment opportunities, and the hospice sector has been identified as an attractive space to deploy capital whether it be for a platform opportunity or add-on acquisitions. With this in mind, competition in the market continues to remain fierce, resulting in higher valuations within the industry. This trend is likely to continue into the latter half of 2011 and pour into the next few years as hospice agencies will continue to see more buyers in the market than ever before.

### The Affect of Medicare Reform on Hospice Providers

With approximately 3% of all Medicare spending providing almost 85% of hospice revenue, even a minor adjustment in Medicare policies will force hospice providers to re-evaluate their business models.

The recent bill proposed by Senators Lieberman (I-CT) and Coburn (R-OK) aims to save \$640 billion over the next 10 years in Medicare predominantly by raising deductibles charged to seniors. Opposition argues that half of seniors had incomes lower than \$22,000 in 2010, with total savings amounting to less than \$50,000. In most circumstances, these seniors are unable to cover substantial healthcare expenses. The inevitable reimbursements cuts ahead, coupled with increased out-of-pocket costs, will slow the growth of hospice as seniors approaching the end of life will have difficulty funding health related services, including end of life care.

On the contrary, the aging population is expected to encompass almost 20% of US the population by 2030, compared to their 12.9% representation of the population today. If no measures are taken to provide additional liquidity or curve spending, available Medicare funds will be completely depleted by 2024.



### NOTEWORTHY TRANSACTIONS

Month	Acquirer	Target Company	Details
June 2011	Amedisys, Inc.	Beacon Hospice, Inc.	Amedisys, Inc. has acquired Beacon Hospice, Inc. for approximately \$125 million. Total annualized revenue for Beacon in 2010 was approximately \$80 million which translates to a 1.56x revenue multiple. Beacon Hospice, headquarter in Boston, MA, is one of the premier hospice companies in New England serving MA, ME, NH, RI and CT. Beacon Hospice includes 23 free standing locations and one inpatient unit. With an average daily census of roughly 1,300 patients, Beacon Hospice will increase Amedisys' number of hospice patients by almost 40%. The transaction is expected to add \$.05 to \$.07 to Amedisys' 2011 earnings that excludes one-transaction costs.
May 2011	The Ensign Group, Inc.	Symbii Home Health LLC	The Ensign Group, Inc. announced that an Ensign subsidiary, Cornerstone Healthcare, has acquired Symbii Home Health LLC. Symbii Home Health is a well-regarded home health and hospice agency based in Sandy, Utah, with branch offices in the cities of Layton and Orem, Utah. The company will be operating as a subsidiary of Cornerstone. With this acquisition, Ensign is able to further expand its platform of home health and hospice companies. The specific financial terms of the deal were not disclosed.
April 2011	Chemed Corporation	Family Comfort Hospice LLC	Chemed Corporation announced that its subsidiary, VITAS Healthcare Corporation, has acquired the operating assets of Family Comfort Hospice LLC. Family Comfort Hospice operates in three Central-Alabama locations that serve ten counties. VITAS is the nation's largest provider of end-of-life hospice care, and this deal adds roughly 80 patients to VITAS' average daily census. The specific financial terms of the deal were not disclosed.

### Announced Transactions

May 2011	Amedisys, Inc.	Hackensack University Medical Center, Hospice Operations	Amedisys, Inc. has signed a definite agreement to purchase the hospice operations of Hackensack University Medical Center in New Jersey. The hospice operations of Hackensack University Medical Center is an eight-bed agency that is licensed to provide care across New Jersey. The hospice generated roughly \$5 million in revenue last year. The financial terms of the deal were not disclosed.
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