



## Q3-2011 FACILITY SERVICES INDUSTRY UPDATE

### M&A UPDATE

When the opening bell rang on August 1<sup>st</sup>, the Healthcare Facility Sector was already in free fall mode after CMS had slashed Medicare reimbursements by an average of 11.1% the previous Friday, causing a weekend filled with after-hours trading. Companies such as Kindred, Sun, and Skilled plunged over 20% each on the first full day of trading, and the market got steadily worse as more details came out of the hundreds of pages of details on CMS's reform which hit some providers closer to 13-14%. With the initial guidance given by CMS to be between a 1.5% net increase to a 11.3% decrease, the industry as a whole had planned for a compromise between the two and therefore when the double digit slash came as an unexpected surprise, it was met with a chaotic response. Now that the dust has settled slightly and the immediate reaction has tempered, we expect groups to focus both on trimming expenses and to continue to be opportunistic about acquisition opportunities as they arise. Earlier in the year we saw major acquisitions by Plum Healthcare Group (GI Partners portfolio) and Ark Holdings (Behrman Capital portfolio), and with some of the public players sitting on healthy cash balances and strong credit facilities, such as Ensign's \$150 million raised in July, we still see a market for merger an acquisition activity. While a large amount of transactions will likely center around troubled assets in need of a partner, there remains a strong interest for groups to push into new geographies where they can not only acquire quality assets, but also a ground force to ease integration and allow for a continued expansion as opposed to a lengthy turnaround project.

Ticker	Price	52wk High	EV/Rev	EV/EBITDA	Cash and ST Investments
AVCA	\$6.03	\$7.54	0.20x	3.31x	\$8.8 million
ADK	\$4.23	\$6.20	1.09x	44.83x	\$5.7 million
ENSG	\$23.11	\$34.09	0.83x	5.49x	\$38.1 million
FVE	\$2.50	\$8.78	0.10x	2.86x	\$56.3 million
KND	\$8.62	\$28.55	0.39x	7.27x	\$113.9 million
SKH	\$3.61	\$15.56	0.71x	4.57x	\$15.0 million
SUNH	\$2.70	\$14.88	0.07x	1.10x	\$88.5 million

### RECENT TRANSACTIONS

Month	Investor	Target Company	Details
September 2011	Brookdale Senior Living	Horizon Bay Retirement Living	Brookdale Senior Living has completed the acquisition of Horizon Bay Retirement Living. The deal transfers over 16,400 units in 19 states to Brookdale, who also restructured management contracts with Chartwell Seniors Housing REIT for 45 of the 91 communities involved in the deal which Chartwell managed. Detailed financial information on the transaction was not disclosed, however Brookdale committed an initial \$47 million for a number of operational purposes.
September 2011	AdCare Health Systems	4 Skilled Nursing Facilities in AR, 1 Skilled Nursing Facility in MO	AdCare Health Systems has completed the acquisition of five skilled nursing facilities; 4 in Arkansas and 1 in Missouri, for a combined \$20 million. The five facilities combine for 506 beds and generated 2010 revenues of \$25 million. The acquisitions are in line with the Company's desire to seek underperforming assets in logical geographic areas.
August 2011	The Ensign Group	Whittier Hills Healthcare Center	The Ensign Group has acquired the real estate and operating assets of Whittier Hills Healthcare Center and Uklan Healthcare Center. The skilled nursing facilities are both located in California and have 160 and 57 beds, respectively. Financial terms of the transaction were not disclosed.
August 2011	The Ensign Group	Lakeland Hills Independent & Assisted Living Community; Emeritus Corporation	The Ensign Group has acquired Lakeland Hills Independent & Assisted Living Community from Emeritus Corporation. Lakeland Hills is a 167 unit ALF/ILF located in Dallas, Texas. Terms of the transaction were not disclosed.
August 2011	The Ensign Group	Oceanview Healthcare & Rehabilitation Center, and Hurricane Health & Rehabilitation Center	The Ensign Group has acquired Oceanview Healthcare & Rehabilitation Center and Hurricane Health & Rehabilitation Center for an undisclosed sum. Oceanview is a Texas-based SNF of 134 beds and will be managed by Ensign's subsidiary, Keystone Care. Hurricane is a 48 bed SNF based in Utah and will be operated by Ensign's subsidiary, Milestone Healthcare. Financial terms of the transaction were not disclosed.
August 2011	AdCare Health Systems	Undisclosed Facility in Arkansas	AdCare Health Systems has acquired a 129 bed SNF/ALF in Arkansas for \$4.2 million. The facility is expected to add \$5.2 million in annual revenues.
July 2011	The Ensign Group	Careage Management	The Ensign Group announced the acquisition of 9 skilled nursing facilities in both IA and NE from Careage Management. The 9 facilities combine for 549 SNF beds and 72 ALF units. Also included in the transaction is Careage Home Care, a small IA based home health agency. Financial terms of the acquisition were not disclosed.