



Q4-2011 HOSPICE SERVICES INDUSTRY UPDATE

M&A Update

Similar to the first three quarters of 2011, the fourth quarter of 2011 was filled with several hospice transactions highlighted by three large private equity related deals. Kohlberg & Company acquired SouthernCare from Metalmark Capital eight years after Metalmark's initial investment in SouthernCare. Curo Health Services, led by Larry Graham, former President & COO of Amedisys, acquired Regency Hospice from EDG Partners. Curo is backed by GTCR, a Chicago-based private equity firm that has invested more than \$8.5 billion in over 200 companies. Finally, Jordan Health Services, backed by Palladium Equity Partners, acquired CIMA Hospice.

Favorable industry demographics should keep private equity interest in the hospice industry elevated throughout 2012, but we expect to see increased competition from public players such as Amedisys and LHC Group. These groups were relatively quiet in 2011 as their stock prices suffered from both Medicare reimbursement pressure on home health as well as the fallout from several accounts of Medicare fraud across the home health industry.

MedPAC & OIG Target SNF-based Hospice Providers

MedPAC in conjunction with the Office of Inspector General (OIG) have issued the following recommendations to CMS: to closely monitor hospices that depend heavily on nursing facility patients and to modify the current payment system that provides incentives for hospices to seek out beneficiaries in nursing facilities, who often receive longer less complex care. They have also recommended a reduction in Medicare payments. CMS concurred with both recommendations and has launched an investigation and analysis of their payment structure. We do expect CMS to reduce Medicare payments to SNF-based hospice providers in the near future.

NOTEWORTHY TRANSACTIONS

Sources: MedPAC, Department of Health & Human Services

Month	Acquirer	Target Company	Details
December 2011	Kohlberg & Company, L.L.C.	SouthernCare, Inc.	SouthernCare, Inc. has been acquired by an affiliate of Kohlberg & Company, L.L.C. SouthernCare is a leading provider of long term care and comprehensive hospice care, caring for more than 3,000 terminally ill patients on a daily basis. Founded in 1994 and headquartered in Dallas, TX, the Company operates 75 centers throughout 15 states in the Midwest and Southeast. Through the financial stability of Kohlberg's private equity funds, SouthernCare will now have the ability to accelerate growth both organically and through acquisitions.
November 2011	Jordan Health Services, Inc.	CIMA Hospice	Jordan Health Services, Inc. a Texas-based provider of home health services, has combined with CIMA Hospice, a provider of hospice services with four locations in Texas. The merger of Jordan Health Services, Inc. and CIMA Hospice will expand each companies service areas, creating one of the largest home-based healthcare companies in the state of Texas. The specific financial terms of the deal were not disclosed.
November 2011	Curo Health Services	Regency Healthcare Group	Regency Healthcare Group, a community-based provider operating three establish hospice brands, Avalon Hospice in Tennessee and Missouri, Regency Hospice in Georgia, South Carolina and Northwest Florida and New Beacon Hospice in Alabama, have been acquired by Curo Health Services. The combined business operates 45 locations across 8 states, and has a combined census of almost 2,100 patients. The specific financial terms of the deal were not disclosed.
Announced Transactions			
December 2011	Lakeland HealthCare, Inc.	Hospice at Home, Inc.	Lakeland HealthCare, Inc. is planning to acquire Hospice at Home, Inc. and merge Hospice at Home with Lakeland Hospice. The Lakeland-owned subsidiary will now be known as Hospice at Home, a Lakeland HealthCare Affiliate, and the Hospice board of directors will remain in place as a subsidiary board of Lakeland's board of directors. The specific terms of the deal have not been disclosed.