



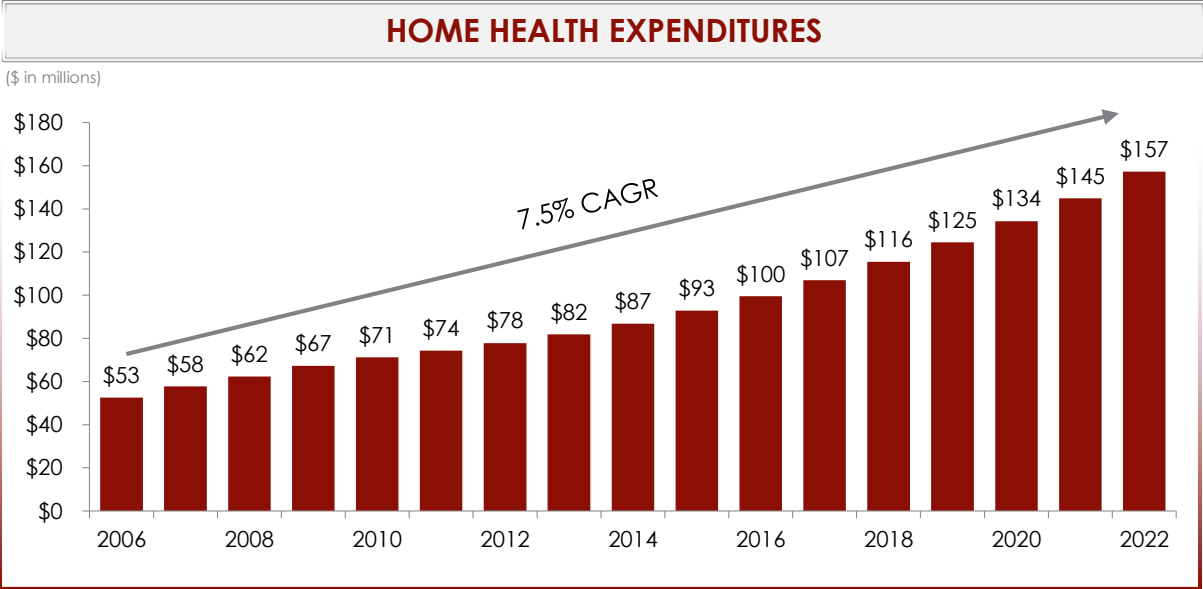
# HOME HEALTH OVERVIEW

March 2015

# LARGE, RAPIDLY GROWING MARKET

Home health is a rapidly growing \$87 billion market.

- Several trends drive strong industry growth
  - Aging population results in strong demographic trends
  - Preference of patients to receive treatment at home
  - Low cost setting driving utilization by payors
- Industry landscape continues to favor players of scale, driving significant M&A activity



Source: CMS.

# CONTINUED NEED FOR INDUSTRY CONSOLIDATION

The need for greater scale and operational efficiency will drive continued consolidation among the home health agencies.

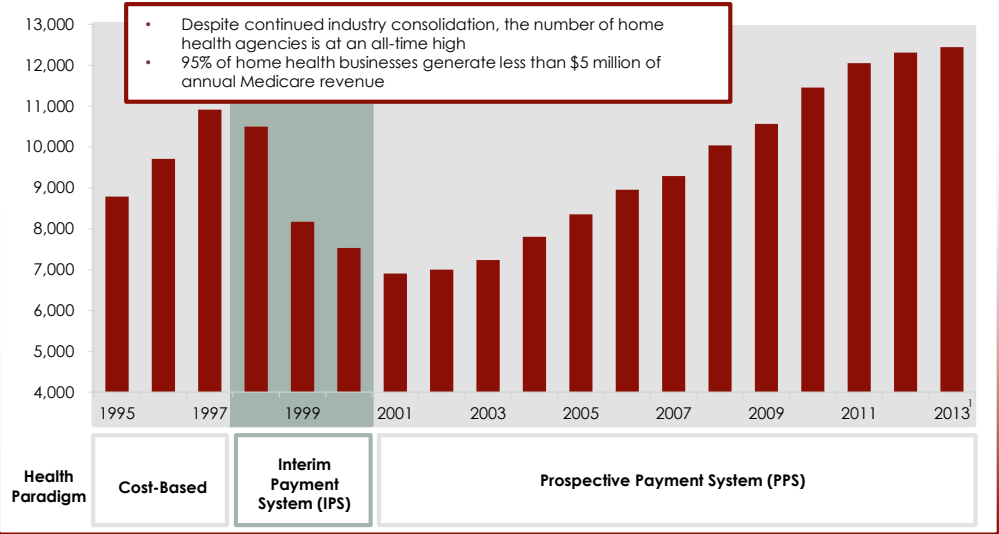
- Despite significant historical consolidation, the home health industry is highly fragmented across over 12,000+ agencies, with providers of scale accounting for less than 5% of the total provider universe
  - Only Top 5% of providers generate more than \$5 million in annual Medicare revenue
  - Only Top 10% of providers generate more than \$3 million in annual Medicare revenue
- Economies of scale and changing referral patterns will reinforce consolidation, as smaller providers are expected to face difficulties maintaining profitability

## FRAGMENTED MARKETPLACE

Agency	Home Health Market Share	# of States
Kindred / GENTIVA	6.1%	47
Amedisys	5.3%	39
LHC GROUP	2.6%	26
ALMOST family	1.9%	14
encompass / HEALTHSOUTH	1.5%	17
BROOKDALE SENIOR LIVING	1.3%	36
Visiting Nurse Service of New York	1.2%	1
AccentCare	0.9%	10
BAYADA	0.8%	22
Intim Healthcare	0.8%	43

Source: Health Market Science, Company websites.

## DISCHARGES TO POST ACUTE SETTINGS



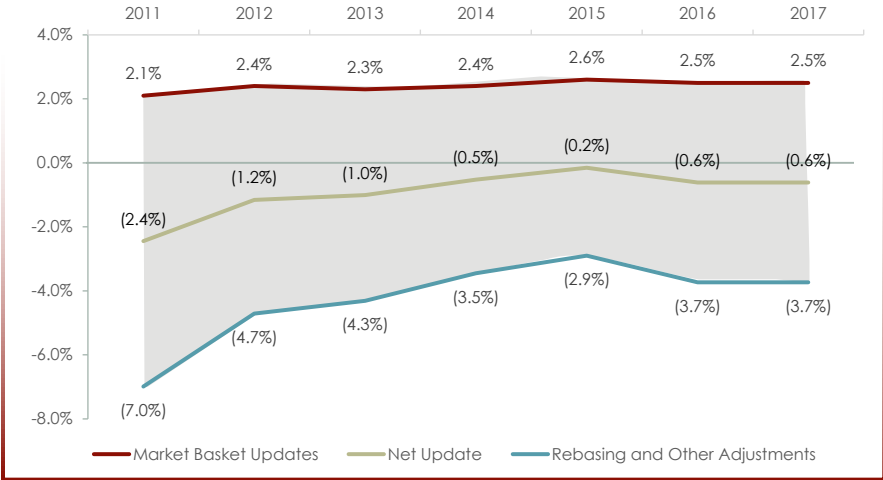
Source: MedPac.  
(1) 2013 estimated based on agencies outstanding on June 6, 2014.

# TRENDS IN REIMBURSEMENT RATES

Continued industry consolidation will benefit providers of scale as less efficient providers are disproportionately impacted by changes in reimbursement rates.

## HOME HEALTH REIMBURSEMENT TRENDS

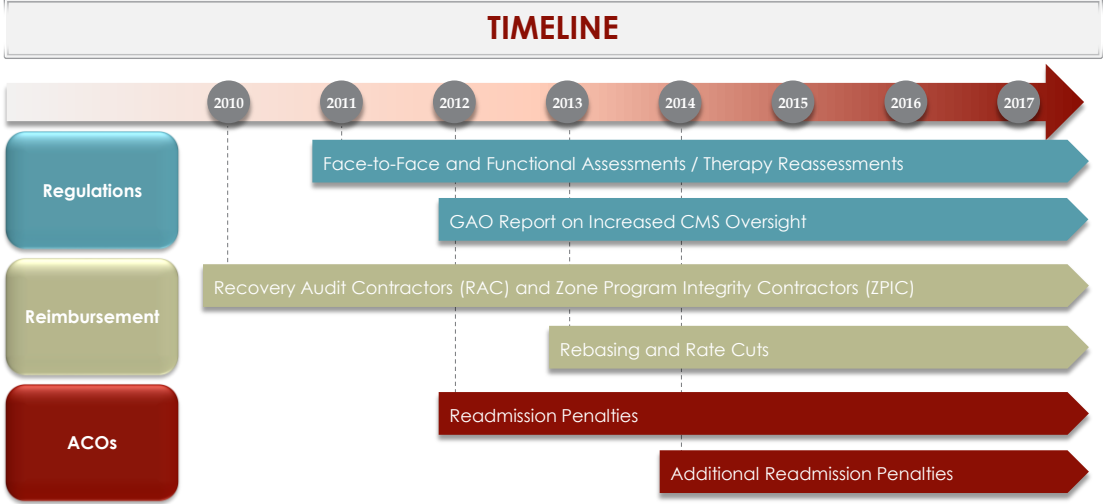
- In November 2013, CMS provided clarity on future reimbursement by issuing a final rule for rebasing, with an annual base reduction of 2.8% in 2014 and estimated annual reductions of 2.1 to 2.5% per year through 2017
  - Implementation of rebasing makes it less likely that home health would be targeted for cuts in a short-term doc fix bill
  - Rebasing and additional productivity adjustments are expected to offset mandated market basket updates, which average a 2.5% increase annually
  
- Reimbursement clarity provides optimism for the future environment and reflects the need for home health as the low cost solution for an aging population



Source: CMS, Marwood Group.

# INCREASED REGULATION AND REDUCED REIMBURSEMENT

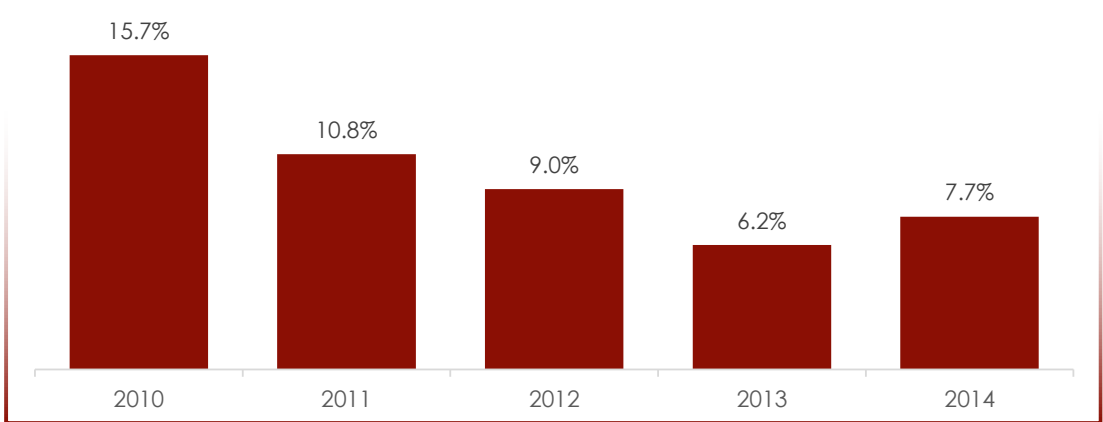
Providers are accelerating adoption of technology to comply with regulatory mandates, in response to reimbursement pressures, and achieve greater operating efficiency.



## INCREASED REGULATION

- Regulatory requirements are tightening to minimize fraud and abuse within the industry
- Recent requirements and conditions for payment that are increasing the need for better documentation, reporting, and processes include:
  - Face-to-face and therapy requirements
  - Content requirements on Plans of Care and Certifications of Need
- Instituting procedures to ensure regulatory compliance has become essential to homecare providers

## IMPACT OF REBASING ON AVERAGE INDUSTRY EBITDA MARGINS<sup>1</sup>



## REDUCED REIMBURSEMENT

- Since 2009, Medicare homecare funding has been reduced by over 20%
- Recent rebasing changes in reimbursement policy is creating margin pressure on homecare providers

(1) Industry Peer Group composed of Almost Family, Amedisys, Gentiva, and LHC Group.

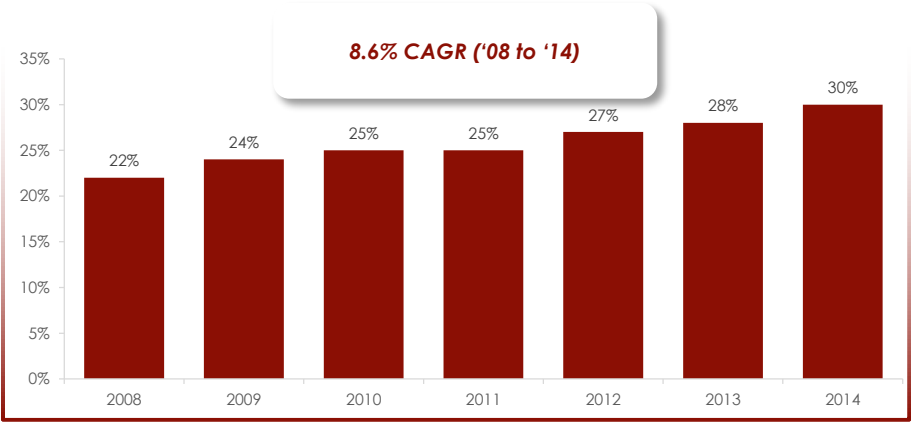
# INCREASING PREVALENCE OF MEDICARE ADVANTAGE

Medicare Advantage enrollment numbers continue to climb.

- 15.7 million beneficiaries – 30 percent of the Medicare population – enrolled in a Medicare Advantage plan in 2014
- Payment rates for MA plans are 22% lower, on average, than for fee-for-service
  - Providers will need to weigh increased volume for potentially lower rates as they consider whether to contract with MA plans
  - Plans will need to evaluate how to “pay for quality” of outcomes to entice providers to accept their contracts

## MEDICARE ADVANTAGE PENETRATION

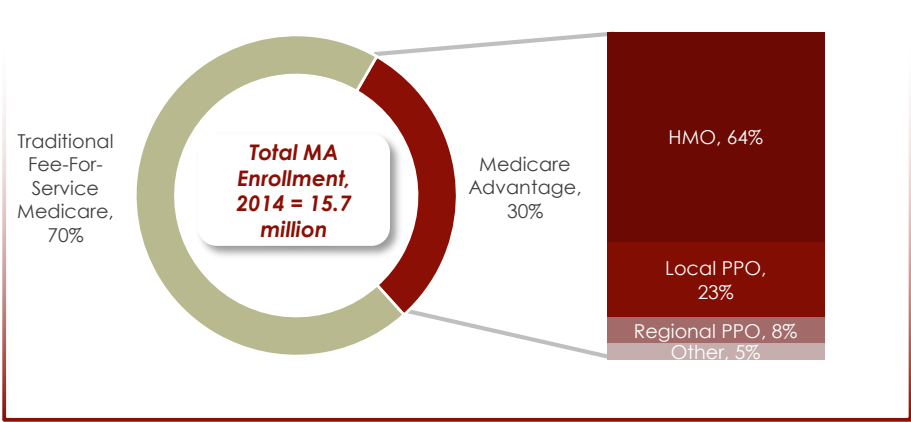
YoY growth in Medicare Advantage enrollment, 2008 - 2014



Source: CMS.

## MEDICARE ADVANTAGE PLANS BY TYPE

Based on Percentage of Medicare Claims



Source: Kaiser Family Foundation.

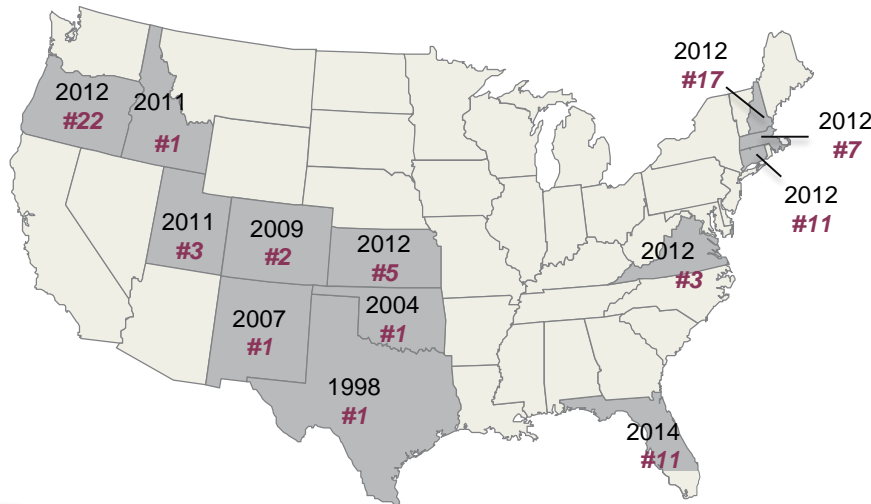
# CASE STUDY: ENCOMPASS HOME HEALTH

Company Location: Dallas, TX  
Buyer: HealthSouth Corporation

HW&Co. Client: Management and Cressey

## COMPANY OVERVIEW

- 5<sup>th</sup> largest provider of Medicare-focused (82% Medicare) skilled home health services in the U.S. with 140 locations across 13 states
- Founded in 1998 and based in Dallas, Texas
- Highly regarded management team with bench strength
- Best in class quality and operational efficiency
- Acquired 45 businesses since 2005
- Leading position in states across the U.S.
- LTM Revenue of \$355 million and industry-leading margins



Encompass presence, year of entry, and current market position

## INVESTMENT HIGHLIGHTS

Scale and density in attractive markets

Highly integrated technology platform

Best-in-breed management team

Clinical excellence

Sustainable and replicable culture

Proven ability to consummate and integrate acquisitions

Innovative partner to health systems, payors, and ACOs

Exceptional financial profile and cash flow

## TRANSACTION OVERVIEW

- \$750 million purchase price
- Accretive upon closing with expected Adjusted EBITDA contribution of ~\$75 million in 2015
- Transaction to be funded with cash on hand and debt – resulting in pro forma HealthSouth leverage of ~3.5x
- HealthSouth will create a new home health and hospice operating division
  - To be run by Encompass management
  - Retain Encompass trade name and headquarters
  - Existing HealthSouth home health agencies to be integrated into Encompass

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