Hospice Industry Overview

October 2013

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The $18.9 billion hospice industry is projected to grow 7.4% annually through 2017P.

- Hospice is the provision of holistic and individualized care to patients facing a life limiting illness and their families.
  - Congress created the Medicare hospice benefit in 1982
  - Goal of hospice is to maximize quality of life and comfort, not to cure
- Hospice is gaining wider acceptance as an alternative to curative care at the end of life.
  - Approximately 44% of Medicare decedents in 2010 received hospice care compared to 23% in 2000
- Growth in the hospice industry will be driven by shifts in patient preferences towards non-acute care, hospice’s cost saving value proposition, and the aging of the U.S. population.

**Hospice Market Size**

For the years ended and ending December 31, 2007 – 2017P
($ in billions)

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>$11.8</td>
<td>$13.0</td>
<td>$14.3</td>
<td>$15.7</td>
<td>$17.2</td>
<td>$18.9</td>
<td>$20.3</td>
<td>$21.8</td>
<td>$23.4</td>
<td>$25.1</td>
<td>$27.0</td>
</tr>
</tbody>
</table>

Source: IBIS.
Utilization of hospice care is increasing as patient preference shifts to receiving end-of-life care in non-acute settings.

- Overall shift towards treating patients outside of costly acute care settings benefits hospice utilization.
  - 98% of hospice patient care days are delivered in a non-acute setting
  - The percentage of elderly who died in acute care hospitals fell from 33% in 2000 to 25% in 2009
- Patients and families continue to become more educated on the many benefits of hospice, driving utilization.

### Hospice Site of Service Mix

For the year ended 2012

- Private Residence: 57%
- Nursing Home: 25%
- Residential Facility: 16%
- Hospice Inpatient Facility: 1%
- Acute Care Hospital: 1%

### Medicare Hospice Utilization

For the years ended and ending December 31, 2010 - 2010

- 2000: 22.9%
- 2001: 24.7%
- 2002: 26.6%
- 2003: 28.7%
- 2004: 31.0%
- 2005: 33.4%
- 2006: 36.1%
- 2007: 38.9%
- 2008: 40.1%
- 2009: 42.0%
- 2010: 44.0%

Source: MedPac and National Hospice and Palliative Care Organization (“NHPCO”).

(1) Defined as deaths under hospice care divided by total annual deaths.
Hospice offers a compelling value proposition as the lowest cost alternative for treating terminally-ill patients.

- Seniors age 65 and older account for approximately 40% of healthcare expenditures.
- Approximately 30% of a senior’s total Medicare expenditures occur in the year preceding death.
- Managing end-of-life care is a key area of focus of healthcare cost containment.
- Patients who are admitted to hospice care spend up to nine fewer days in a hospital.
- Hospice is by far the lowest cost patient setting with an average per diem cost of $153 per day.

**Hospice Daily Medicare Charges vs. Other Settings**

For the year ended December 31, 2010

(Dollars per treatment day)

<table>
<thead>
<tr>
<th>Setting</th>
<th>Charge</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hospital Inpatient</td>
<td>$6,200</td>
</tr>
<tr>
<td>Skilled Nursing</td>
<td>$622</td>
</tr>
<tr>
<td>Hospice Routine Home Care</td>
<td>$153</td>
</tr>
</tbody>
</table>

Difference of $6,047 per beneficiary per day

Source: Hospice Associate of American and Health Affairs.
The aging U.S. population will continue to drive growth in hospice utilization.

- Seniors over the age of 65 represent 83% of hospice patients.
  - Over 65 age group will grow from 40.2 million in 2010 to 54.8 million in 2020

**Hospice Patients by Age**

<table>
<thead>
<tr>
<th>Patient Age</th>
<th>% of Total Hospice Patients</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 24 years</td>
<td>0.4%</td>
</tr>
<tr>
<td>25 - 34 years</td>
<td>0.4%</td>
</tr>
<tr>
<td>35 - 64 years</td>
<td>16.0%</td>
</tr>
<tr>
<td>65 - 74 years</td>
<td>16.3%</td>
</tr>
<tr>
<td>75 - 84 years</td>
<td>27.6%</td>
</tr>
<tr>
<td>85 years and over</td>
<td>39.3%</td>
</tr>
</tbody>
</table>

83%

Source: NHPCO.

**Population Age 65 and Over**

For the years ended 2010 – 2020 (population in millions)

- Source: Department of Health and Human Services, Administration on Aging.
Hospice care is covered under Medicare, Medicaid, and many private insurance plans.

- The Medicare hospice benefit is the predominant source of payment for hospice care in the U.S. and accounts for approximately 90% of reimbursement.
  - Hospice is provided free of charge to patients under the Medicare benefit
  - Medicare reimbursement rates vary based on the patient’s acuteness and the level of care needed

- The Medicare Cap (“Cap”) is an annual limitation on reimbursement for providing hospice treatment.
  - Cap was $25,377 per patient for 2013
  - Excessively long lengths of stay present risks of violating the Cap and incurring mandatory repayments to CMS

- In recent years, the hospice industry has received reimbursement increases from CMS.

### Current Hospice Reimbursement Overview

For the year ending October 31, 2013

<table>
<thead>
<tr>
<th>Level of Care</th>
<th>Description</th>
<th>Per Diem Rate</th>
<th>Component Subject to Wage Index</th>
<th>Non-Weighted Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Routine Home Care</td>
<td>Home care provided on a typical day</td>
<td>$153.45</td>
<td>$105.44</td>
<td>$48.01</td>
</tr>
<tr>
<td>Continuous Home Care</td>
<td>Home care provided during periods of patient crisis</td>
<td>$895.56</td>
<td>$615.34</td>
<td>$280.22</td>
</tr>
<tr>
<td>Inpatient Respite Care</td>
<td>Inpatient care for a short period to provide respite for primary caregiver</td>
<td>$158.72</td>
<td>$85.92</td>
<td>$72.80</td>
</tr>
<tr>
<td>General Inpatient Care</td>
<td>Inpatient care to treat symptoms that cannot be managed in another setting</td>
<td>$682.59</td>
<td>$436.93</td>
<td>$245.66</td>
</tr>
</tbody>
</table>

Source: CMS.

### Historical Hospice Reimbursement Rate Changes

For the years ending October 31, 2009 – 2013

<table>
<thead>
<tr>
<th>Year</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross</td>
<td>3.6%</td>
<td>2.1%</td>
<td>2.6%</td>
<td>3.0%</td>
<td>1.6%</td>
</tr>
<tr>
<td>Net¹</td>
<td>3.6%</td>
<td>1.4%</td>
<td>1.8%</td>
<td>2.5%</td>
<td>0.9%</td>
</tr>
</tbody>
</table>

Source: CMS.

(1) Net of BNAF phase-out and Wage Index change. Excludes impact from budget sequestration.
Hospice is a highly fragmented market with no individual provider comprising more than 7.4% of the market.

- 44% of the market is served by non-profit and government hospices.
- The top 4 players only account for approximately 17% market share.

**Hospice Market Competitive Overview**

- **For Profit**: 46%
- **Non-Profit**: 44%
- **Hospital-Based**: 10%

**Largest Hospice Players**

<table>
<thead>
<tr>
<th>Hospice Platform</th>
<th>Daily Census Estimate</th>
<th>States of Operation</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vitas</td>
<td>14,443</td>
<td>18</td>
<td>7.4%</td>
</tr>
<tr>
<td>Gentiva</td>
<td>12,700</td>
<td>29</td>
<td>6.5%</td>
</tr>
<tr>
<td>Amedisys</td>
<td>5,091</td>
<td>25</td>
<td>2.6%</td>
</tr>
<tr>
<td>LHC</td>
<td>1,100</td>
<td>19</td>
<td>0.6%</td>
</tr>
<tr>
<td>Other (Over 3,500 Hospices)</td>
<td>161,842</td>
<td>N/A</td>
<td>82.9%</td>
</tr>
</tbody>
</table>

Source: CMS and public filings.