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Home Health Market Overview

December 2013

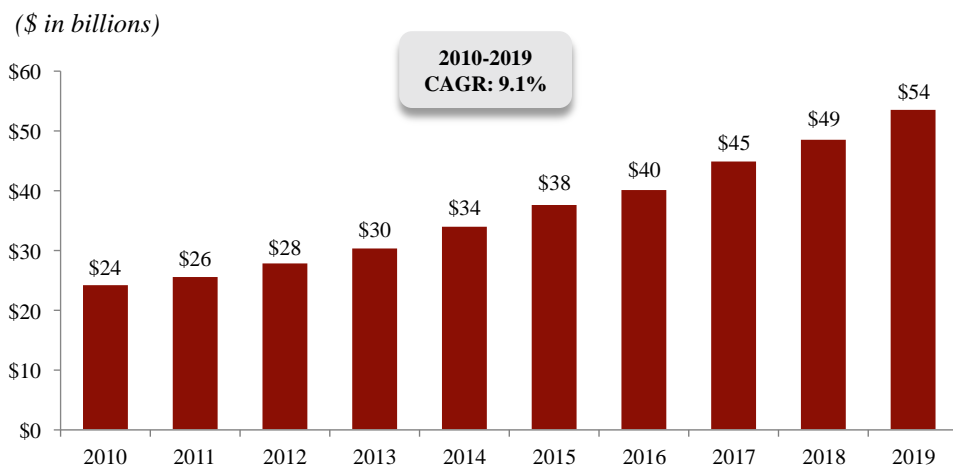
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Large, Rapidly Growing Market

Home health is a \$30 billion industry, with over 12,000 Medicare certified home health agencies (“HHAs”).

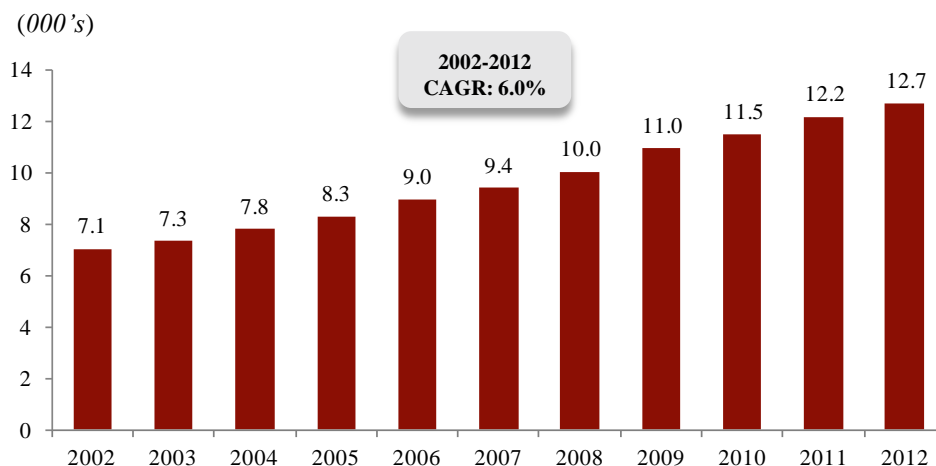
- Introduction of the Prospective Payment System (“PPS”) in 2001 ushered a rapid expansion in number of HHAs.
 - Over 2,000 new agencies have been added in the last five years
- The market remains very fragmented with over 50% of HHAs generating less than \$3 million in Medicare revenues.
 - Larger agencies are actively consolidating to spread fixed costs across broader populations

Large, Growing Market – Total Home Health Spend



Source: RBC Capital, NAHC

Number of Medicare Certified HHAs



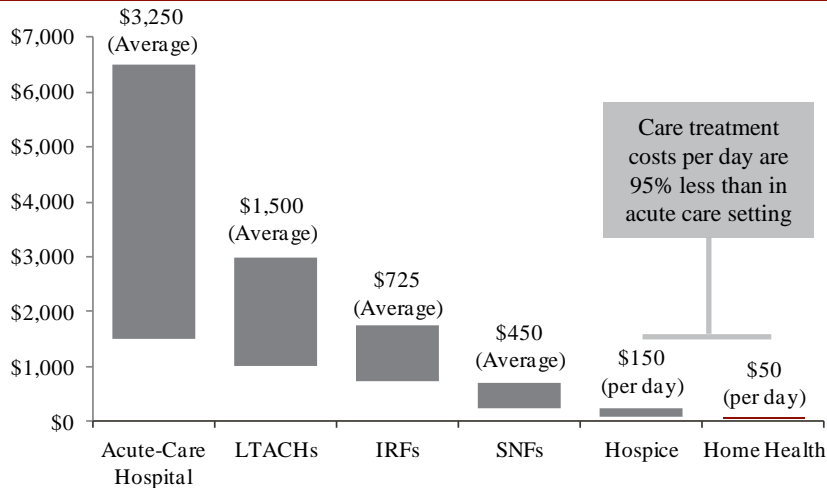
Source: BB&T Research, MedPAC, NAHC

Demographics and Cost Advantages are Driving Utilization

Key underlying demographic trends and compelling cost-saving opportunities are driving strong demand for home health.

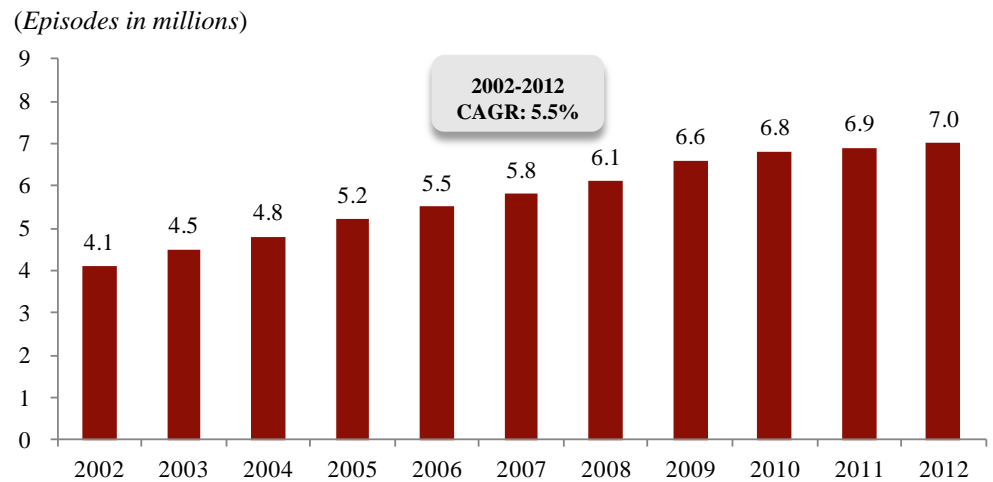
- Home health provides a cost-effective alternative to facility-based care and has been proven to provide equal efficacy.
 - Represents ~20% of the cost of skilled nursing facility care and ~5% of the cost of hospital-based care
 - Favored by payors as they are focused on containing costs while providing quality care for chronic patients
 - Favored by patients because they prefer receiving care in the familiar setting of their own homes
- Industry is poised for continued growth as the population of people over 65 years old is expected to expand by over 40% by 2020, as the baby boomer generation ages.
- Today, home health and hospice make up over 35% of post-acute care destinations for Medicare patients.

Compelling Home Health Cost Advantages – Treatment Cost by Setting



Source: NAHC

Number of Home Health Episodes of Care

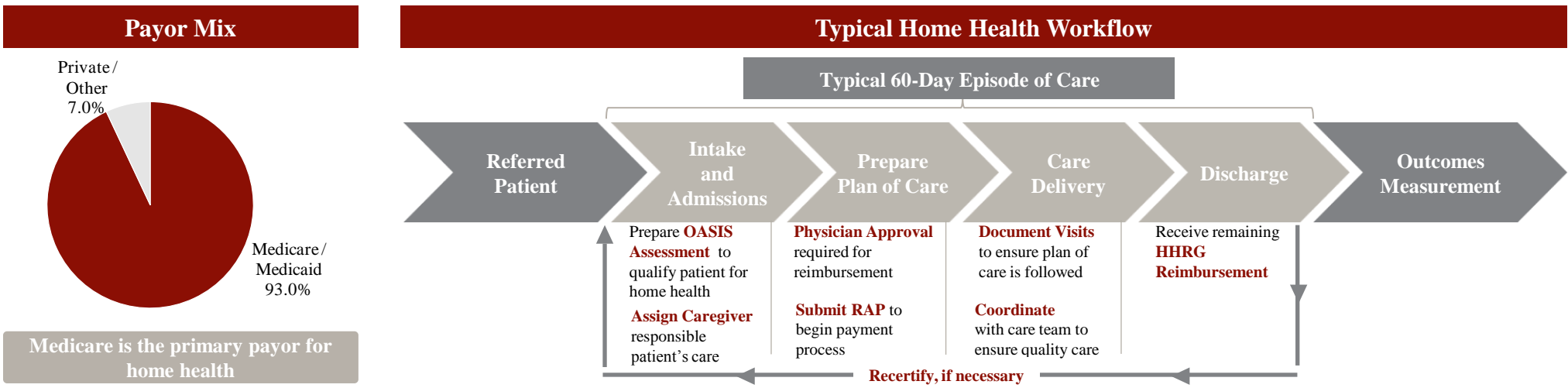


Source: MedPAC, HW&Co. Analysis

Home Health Reimbursement

The home health reimbursement process is complex, with numerous operational and regulatory challenges.

- Under the current PPS, Medicare pays HHAs a base rate for services provided over a 60-day episode of care.
- Base rate is adjusted according to the intensity of care delivered and the frequency of visits.
- Assuming appropriate documentation is filed, 60% of expected reimbursement is paid in approximately two weeks after receiving the Request for Advanced Payment (“RAP”) (50% for recertified patients) and the remainder is paid upon discharge or at the end of an episode.



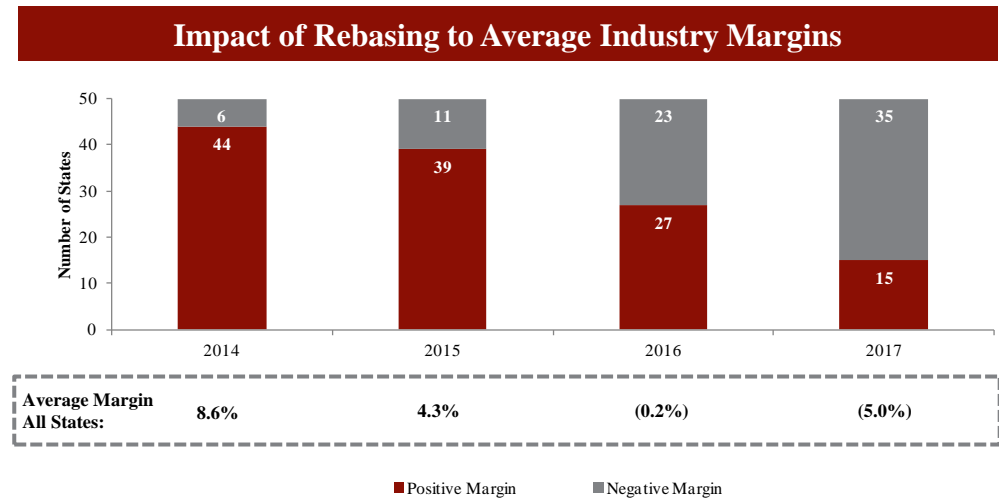
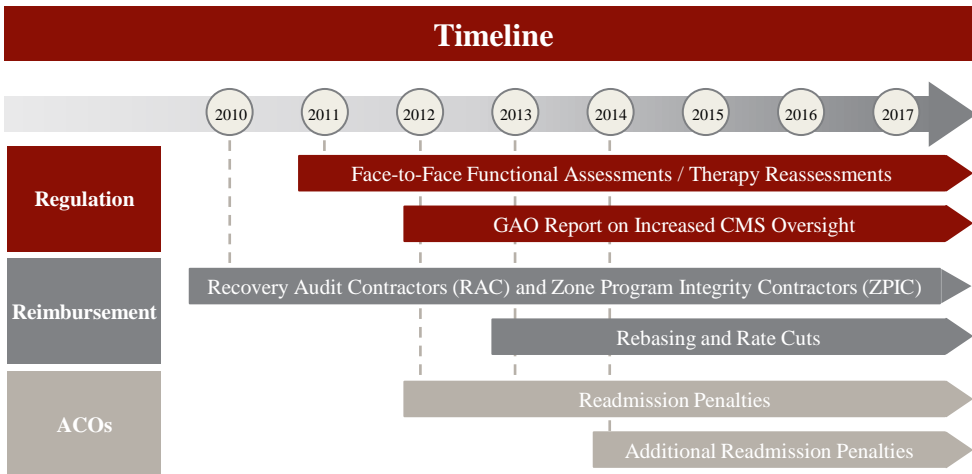
Key Home Health Statistics

- ~70% of home health patients are senior citizens
- Patients average three or more impairments with daily living activities
- Patients average 4.2 medical diagnoses each
- Over 3.3 million Medicare beneficiaries receive home health services
- Over 400,000 licensed or registered nurses, aids, and other practitioners provide care
- ~89% of seniors prefer care at home

Increased Regulation and Reduced Reimbursement

Home health is expected to continue to operate in a challenging reimbursement environment, which will drive M&A activity.

- CMS recently issued the CY 2014 final rule for home health rebasing.
 - Net payment reduction of 1.1%, including a negative 2.7% rebasing adjustment (the maximum allowable under the Affordable Care Act).
 - 170 ICD-9 codes removed due to their acute nature
 - Since 2009, Medicare home health funding has been reduced by over 20%
- Policy makers have finalized rebasing plans for the next four years.
 - Policymakers continue to perceive the system as encouraging overutilization and overpayment
 - Rebasing will occur at the maximum rate allowed by the Affordable Care Act (2.7% annually for four years starting in 2014)



Source: Partnership for Quality Home Healthcare

Note: Maximum allowable rebasing adjustment under the Affordable Care Act is negative 3.5% from 2010 levels, which equates to 2.7% from 2013 levels

Fragmented Market with Significant Consolidation

The need for greater scale, operational efficiency, and comprehensive care delivery capabilities is driving market consolidation.

- Highly fragmented market with over 50% of HHAs generating less than \$3 million in revenue.
- The home health industry is competitive and experiencing consolidation.
- Reimbursement pressures will reinforce the consolidation trend driven by the need for scale and better operating leverage to maintain and increase profits.
- The opening of new agencies is limited in states that possess a Certificate of Need (“CON”), driving established players to make acquisitions in order to gain access to those states.
- Non-CON states also have a high number of small, undercapitalized agencies that present additional opportunities for consolidation in the industry.

Representative Home Health Companies Acquired Since 2008



Over 130 acquisitions in the last 5 years

Select Home Health Consolidators



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