Industry Flash Report – Home Health and Hospice
August 2017

The home health and hospice sectors had combined estimated revenue of $125 billion in 2016. Approximately $90 billion is attributable to home health (including custodial private duty and skilled home care services), which grew at a compound annual growth rate (CAGR) of 4.5 percent from 2011-2016, and is expected to grow at a 6.7 percent CAGR over the next five years. Hospice is a $35 billion sector that has grown at 4.0 percent CAGR during the past five years and is anticipated to grow at 4.5 percent CAGR over the next five years. The growth of these sectors is reflective of the aging population, the rising prevalence of chronic disease, a shift to more cost-efficient treatment options, and the drive toward population health management.

Implications to Clients
Home health and hospice providers continue to explore strategic options to enhance access to capital, achieve economies of scale, and establish a greater presence in a broader post-acute care continuum. Small- and mid-size independent organizations may not have the resources or capital to achieve the scale necessary to maintain consistent profitability. Partnering often has proven the most viable strategic option. Home health and hospice providers that are affiliated with or owned by health systems may face challenges because they are embedded in high-cost structures and often have more complex patient populations. From a system perspective, home care and hospice services historically are viewed as non-strategic and dilutive to financial results. As such, some health systems continue to explore partial or full divestitures. Increasingly, however, health system leaders view home health and hospice operations as necessary to accelerate population health strategies, including improving quality and reducing excess facility-based post-acute utilization. Strategic transactions involving these sectors typically take the form of joint ventures (JVs), with health systems maintaining a controlling interest. Other transactions occurring in the sectors include affiliations, mergers, and full asset acquisitions, depending on the goals and objectives of the parties involved.

Overview of Home Health and Hospice Sectors
- There are about 12,300 home health agencies and 4,200 hospice providers nationwide
- The sectors are highly fragmented with the top publicly traded firms accounting for about 21 percent and 14 percent of market share, respectively
- Facility-based post-acute providers (e.g., HealthSouth, Kindred) are making additional investments in home health and hospice services to provide a full continuum of services
- Despite reimbursement cuts, home health and hospice provider Medicare margins of ~15 percent and ~8 percent remain strong, indicating that agencies have effectively managed costs

Transaction Activity
- Baylor Scott & White Health and AccentCare, a home health and hospice provider in 11 states, announced plans for a JV in April 2017
- In March 2017, Amedisys announced acquisition of six home health and hospice care centers in four states from Tenet Healthcare
- Amedisys entered the private duty market in 2016, acquiring Associated Home Care Inc. for about $38 million
- Shortly thereafter, Amedisys expanded its private duty business by acquiring Home Staff, LLC, which generates about $10 million in revenue
- LHC Group and LifePoint Health agreed to a JV in November 2016 involving 29 LifePoint home health facilities and 12 hospice locations; the deal is expected to add about $72 million in annual revenue to LHC Group
- Almost Family in 2016 acquired a majority interest in a JV formed with Tenet Healthcare
- Amedisys announced acquisition of six home health and hospice care centers in four states from Tenet Healthcare
- Amedisys, in particular, has a pipeline of transactions including about $100+ million of EBITDA
- Other recent key transactions include:
  - Genesis HealthCare’s divestiture of home health assets to Compassus
  - Blue Wolf Capital acquiring Great Lakes Caring and National Home Health Care
  - Two large for-profit providers, Premier and Jordan Health Services, have announced their intent to explore strategic alternatives

Major Players and Market Multiples
Almost Family [NASDAQ: AFAM]
- Generates about $700 million in revenue
- Operates 242 home health facilities and 16 hospice locations in 26 states
Amedisys [NASDAQ: AMED]
- Generates about $1.4 billion in revenue
- Operates 327 home health centers and 79 hospice centers in 34 states
- Provides care to about 385,000 patients per year
VITAS Healthcare, a subsidiary of Chemed [NYSE: CHE]
- Largest hospice provider by revenue, reporting 2016 revenue of $1.1 billion
- Operates 45 hospice programs in 16 states
Kindred Healthcare [NYSE: KND]
- Home health vertical generates $1.8 billion across 390 sites in 39 states
- Hospice platform provides about $700 million across 183 sites in 30 states
LHC Group [NASDAQ: LHC]
- Generates about $900 million in annual revenue
- Operates 301 home health and 73 hospice programs in 27 states

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<tr>
<th>Company Name</th>
<th>LTM Revenue</th>
<th>EBITA</th>
<th>TEV/Rev</th>
<th>TEV/EBITDA</th>
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<td>$761</td>
<td>$42</td>
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For more information, please contact Kristofer Blohm at 224.724.3182 or Andre Maksimow at 224.724.3159.