

Q4 2012: Inside this Issue

Welcome to the most recent issue of Lincoln International’s Healthcare DealReader, a newsletter focused on market dynamics, merger and acquisition trends and events of interest to owners and managers of healthcare businesses globally.

At Lincoln International, we specialize in providing unparalleled merger and acquisition advisory services to corporations, financial sponsors and privately-held businesses worldwide. Our knowledge of the healthcare

sector, global footprint and commitment to understanding our clients’ unique business models has allowed us to successfully pair our clients with partners who are ideally suited to meet long-term growth objectives.

In this issue, we are pleased to share our thoughts on the home health and community care sector and recent trends that are driving M&A activity.

Lincoln International

Lincoln International Healthcare Group professionals have served as financial advisors on the following Home Health and Community Based Services and Products transactions over the past 24 months:

 has sold  to 	 has sold  to 	 has acquired  and 	 a portfolio company of  has acquired  a portfolio company of 	 has sold  to  a portfolio company of 	 a portfolio company of  has acquired 
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Investment Opportunities Abound in Home Health & Community Based Care

There are plenty of reasons to remain excited about, or at least stay focused on, this important healthcare sector/spectrum. We all know many of them: aging, chronic disease trends, movement to lower-cost healthcare settings, patient preferences for home and community care, improved medical technology to allow effective care in this setting, to name just a few. One of the best ways to gauge the long-term importance of chronic or complex healthcare provided to patients in home and community-based settings is to review some of the major, recent strategic acquisitions and investments that have taken place in this space, even as a good number of financial sponsor and industry observers have become more concerned about some aspects of this broader market (particularly with respect to reimbursement and regulatory dynamics):

Home Respiratory

- ◆ Strong underlying demand and expected unit volume growth over the foreseeable future
- ◆ Likely to be a “winner-take-all” market given competitive bidding dynamics
- ◆ Continued potential for integration of respiratory and gas distribution across alternate site markets
- ◆ Linde recently acquired Lincare for 9x EBITDA and 13x EBIT

Linde Group paid over 9x EBITDA and 13x EBIT for home oxygen and respiratory therapy provider, Lincare Holdings. COPD and other respiratory conditions continue to be on a significant rise globally and these patients are much more effectively served and treated in home and community based settings. In addition, regulatory pressures are also

expected to drive significant consolidation in the home and alternate site respiratory space. Well managed, growth oriented providers such as Lincare and Aerocare are well positioned to capture market share and grow given these reimbursement, regulatory and service change dynamics.

Medicare Home Nursing

- ◆ Strategically important sector with strong expected growth over the foreseeable future
- ◆ The return of strategic M&A with the recent acquisitions of Nurse On Call and IntegraCare

While home nursing seemingly has been on a bit of an M&A pause, several transactions confirm in our minds that long-term chronic care will increasingly take place in the home setting and that eldercare-oriented companies view home nursing as a critical component of the care continuum. Powerful deal examples include the series of acquisitions that Kindred Healthcare has made – including the recent purchase of IntegraCare Home Health from Flexpoint Ford – and the notable acquisition by ALF operator Emeritus of the Florida-only platform company Nurse on Call from Kinderhook.

Integrated Delivery of Home Nursing and Hospice

- ◆ Some have embraced the integrated strategy while others have remained “pure-play”
- ◆ Leading home health franchisor, Interim Healthcare, recently acquired by The Halifax Group

We continue to believe that a well-managed continuum of care ranging from home healthcare to hospice, as long as each segment has its own management strengths and operating excellence, makes good strategic sense over the long term. A number of providers, such as Kindred Healthcare, Amedisys and Gentiva (among many others), appear to be taking this approach. Other providers, particularly those with an original or primary strategic focus on hospice, have not expanded into this spectrum of services, at least not yet.

Another way to play home healthcare and hospice, either separately or in combination, is to invest in a home health franchisor. An example of a franchisor that has embraced a spectrum of home-based service is bellwether Interim Healthcare, whose network provides a diversified set of skilled home nursing, home attendant care and, increasingly, hospice services. Sentinel Capital Partners recently sold Interim Healthcare to the Halifax Group. *Michael Weber of Lincoln International served as industry/co-advisor to Interim Healthcare and Sentinel Capital Partners on this transaction.*

Hospice

- ◆ Home hospice still early in the growth cycle with significant room to run
- ◆ Growth capital influx, M&A dynamics in hospice remain vibrant

Hospice has continued to receive lots of strategic and financial sponsor interest, with ongoing significant capital inflows. Note newly created platforms backed by such sponsors as GTCR, Kohlberg & Co., and Health Evolution Partners, to name just a few. Further, numerous strategic entities have continued to invest in this segment, building an early elderly care-to-terminal care continuum. Active participants include such companies as Sun Healthcare, Kindred, Avalon Healthcare and Odyssey Healthcare, again to list just a few. The case for hospice remains compelling: lower-cost, palliative care vs. high-cost, institutional treatment. Too many terminally ill patients are still dying in high-cost institutionalized settings. Even some enhanced regulatory restrictions over time will not diminish the importance of this segment, in our view.

Adult Day Health

- ◆ Often overlooked, but strategically important to the healthcare continuum
- ◆ Lowest cost and attractive alternative to traditional home care
- ◆ Largest provider is Senior Care-Active Day

One of the most effective and cost efficient ways to provide services and care to the elderly can be found in the adult day health market. In this sector, the elderly spend several hours during most days of the week in community-based centers, being supervised, monitored and cared for by skilled and attendant care professionals. Individuals are closely monitored, including their prescription intake, and receive medical services, as needed. *Lincoln International Healthcare Group professionals served as financial advisors to Senior Care Centers of America and private equity backer Clearview Capital in the 2011 acquisition of Sterling Partners-backed Active Day.* This transaction created the largest adult day health provider in the U.S.

Pediatric Home and Community Based Care

- ◆ Growth arena in home care beyond geriatric therapy
- ◆ Growing number of emerging platforms create early investment opportunity
- ◆ Active M&A sector in 2012

Pediatric skilled home healthcare and community-based pediatric services, such as pediatric therapy and PPEC (prescribed pediatric extended care), are unique markets where platform companies have specialized expertise and capabilities addressing a unique set of patients, service needs, referral sources, etc. Several acquisitions by Webster Capital-backed Epic Health Services, the purchase of Cranial Technologies (custom cranial headbands and related therapy services for children) by Cortec Group and Clearview Capital's acquisition of Pediatric HealthChoice, a leading PPEC provider, are just a few examples of investment activity in this space.

Home and Specialty Infusion

- ◆ One of the most active home health M&A markets in 2012
- ◆ Bellwether transactions include the sale of Crescent Healthcare to Walgreens and the sale of Home Solutions to KRG

Buoyed by a rather positive report on the home IV market from the GAO in 2010 and by continued strong strategic and financial buyer interest in this sector, we have seen little abatement of M&A activity, particularly as it relates to branch-based, traditional and specialty home IV platform M&A transactions. M&A activity in 2012 began with the sale of Frontenac Company's Crescent Healthcare to Walgreens. *Lincoln Healthcare professionals served as financial advisors to Crescent Healthcare.* More recently, we saw Norwest Equity Partners acquiring niche-focused Pentec Health and KRG Capital purchasing East-coast based Home Solutions from Flexpoint Ford. The factors driving M&A interest and activity include: strong infusible drug pipeline; long-standing, mature space with a seemingly more controlled reimbursement environment; lower exposure to Medicare and Medicaid payers than other home healthcare markets, with Medicare, if anything, representing a long-term upside opportunity; to name just a few.

Related Home & Community Based Care Sectors

- ◆ Related segments provide alternative investment opportunities and have been active M&A markets in 2012
- ◆ Important to understand dynamics in these channels as they related to home healthcare and the care continuum

It is worth noting that several other home and community-based focused markets may represent intriguing investment opportunities. Examples of segments and companies are as follows:

- Early intervention/autism/applied behavioral analysis: e.g., South Bay Medical, City Pro-Group
- Physician home care/house calls: note several, small acquisitions in this segment by hospital systems and home health providers over the past several months

- At-risk youth services in community settings: e.g., Res-Care, Mentor Network and Providence Service
- Caregiver-based geriatric care management: e.g., Humana's SeniorBridge, SeniorLink
- Direct-to-patient home medical supplies distribution: another way to play home health, with numerous private equity groups and strategic players interested in this segment. Examples: Harrington Holdings/Edgepark and 180 Medical
- Home Medical Equipment Distribution: another way to play home health and other eldercare product markets, without direct exposure to third-party and government payer sources. Examples: Drive Medical and Roscoe Medical
- Ambulatory care medical product companies: another way to play the sector is to focus on manufacturers or assemblers of products targeted at chronically ill or elderly residing in home and community based settings. A bellwether example includes Dr. Comfort, sold by Merit Capital Partners to DJO Global last year. *Lincoln Healthcare Group professionals served as financial advisors to Dr. Comfort and Merit Capital Partners.*

Selected Home and Community Care M&A Transactions (Early 2011-Present)

Date	Target	Description	Acquirer
Late 2012	<i>Nurse on Call</i>	Home Nursing	Emeritus Senior Living
Late 2012	<i>Interim Healthcare (Franchisor)</i>	Home Nursing / Home Care	<i>The Halifax Group</i>
Late 2012	<i>Senior Helpers (Franchisor)</i>	Home Care	<i>Levine Leichtman Capital Partners</i>
Late 2012	<i>Home Solutions</i>	Home Infusion	<i>KRG Capital</i>
Late 2012	<i>Celtic Healthcare, Inc.</i>	Home Nursing	The Washington Post Company
Late 2012	<i>A-Med Health Care</i>	Home Medical Supplies	Mediq
Late 2012	<i>Family Home Care</i>	Home Health / Hospice	Geniva Health Services
Mid 2012	<i>LVL Medical (Europe)</i>	RT / HME ⁽¹⁾	Air Liquide
Mid 2012	<i>Integracare Home Health</i>	Home Nursing / Hospice	Kindred Healthcare
Mid 2012	<i>Lincare</i>	RT / HME	Linde
Mid 2012	<i>AllianceCare, Inc.</i>	Home Care	Caresouth Homecare Professionals, Inc.
Mid 2012	<i>Infuscience</i>	Home Infusion Therapy	Bioscrip
Mid 2012	<i>Advocate Hospice, LLC</i>	Hospice	Geniva Health Services
Mid 2012	<i>DCRX Infusion</i>	Specialty Infusion	<i>Riordan, Lewis & Haden</i>
Mid 2012	<i>Pentec Health</i>	Specialty Infusion	<i>Norwest Equity Partners</i>
Mid 2012	<i>Principle Pharmacy Group, Inc.</i>	Home Infusion	<i>Mitsui & Co. Global Investment</i>
Early 2012	<i>Air Products Home Care (Europe)</i>	RT / HME	Air Liquide
Early 2012	<i>WhiteGlove Home Call Health, Inc.</i>	Physician Housecall	<i>Burrill Venture Capital</i>
Early 2012	<i>Woodbury Health</i>	Home Medical Supplies	<i>MTS Health</i>
Early 2012	<i>Crescent Healthcare</i>	Home Infusion Therapy	Walgreens
Early 2012	<i>Child Health Holdings, Inc. (IV Assets)</i>	Home Infusion Therapy	<i>CarePoint Partners, LLC</i>
Late 2011	<i>SouthernCare, Inc.</i>	Hospice	<i>Kohlberg & Company, L.L.C.</i>
Late 2011	<i>Regency Hospice</i>	Hospice	<i>Curo Health Services</i>
Late 2011	<i>Comerstone Hospice, Inc.</i>	Hospice	Skilled Healthcare Group
Late 2011	<i>Synergy Home Health Care Inc.</i>	Home Nursing	Kindred Healthcare
Late 2011	<i>Active Day</i>	Adult Day Health	<i>Senior Care Centers of America</i>
Late 2011	<i>Arriva Medical</i>	Home Medical Supplies	Alere Medical
Late 2011	<i>CareCentrix, Inc.</i>	Home Care Management	<i>Summit Partners</i>
Late 2011	<i>Pediatric Health Choice</i>	Pediatric Therapy	<i>Cleanview Capital</i>
Late 2011	<i>Professional Healthcare at Home</i>	Home Nursing	Kindred Healthcare
Mid 2011	<i>Cambridge Home Health</i>	Home Care	Almost Family
Mid 2011	<i>Neighborhood Diabetes</i>	Home Medical Supplies	Insulet
Mid 2011	<i>SunCrest Healthcare</i>	Home Nursing	<i>Omni Health Management</i>
Mid 2011	<i>Beacon Hospice</i>	Hospice	Amedisys
Early 2011	<i>LifeCare Solutions</i>	RT / HME	<i>Preferred Homecare</i>
Early 2011	<i>PyraMed Health Services</i>	Pediatric Home Nursing	<i>Epic Health Services</i>

Note: Private equity backed entities and private equity buyers are italicized; more than 70% of the highlighted transactions involved private equity
(1) RT / HME: Home Respiratory / Home Medical Equipment

About Lincoln International

Lincoln International specializes in merger and acquisition advisory services, debt advisory services, private capital raising and restructuring advice on mid-market transactions. Lincoln International also provides fairness opinions, valuations and pension advisory services on a wide range of transaction sizes. With thirteen offices in the Americas, Asia and Europe, Lincoln International has strong local knowledge and contacts in key global economies. The firm provides clients with senior-level attention, in-depth industry expertise and integrated resources. By being focused and independent, Lincoln International serves its clients without conflicts of interest. More information about Lincoln International can be obtained at www.lincolninternational.com.

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