



Global Healthcare Advisors, LLC

Building Leading Healthcare Companies

Analysis of the Post-Acute Care Continuum

Vertical: Post-Acute Care, September 2015

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Executive Summary

Market Analysis: Companies that operate in the PostAcute Care Industry may be the biggest beneficiaries of the removal of the SGR overhang and from the improved government payment environment going forward

Reimbursement: CMS Market Basket Payment rates are turning the corner & the reimbursement environment is set to improve for post-acute providers. Our Analysis of Historical and Forecasted CMS Market Basket Payment Rates Finds the Following Key Points: (1) Our trough-to-peak analysis from 2014 to 2018 suggests most improvement in Home Health, then SNF, followed by IRF, lastly LTAC. (2) Our cumulative analysis from 1995 to 2014 shows essentially a “zero sum game” with marginal differences over time in the individual baskets. (3) LTACs flag as being the most stable and having the least variation around its mean based on our variability analysis

Regulatory: (1) Post-acute players were hurt the most by the Affordable Care Act and (2) “Site Neutral” trends could drive revenue growth in the post-acute care market

Acquisition Environment: Acquisition environment has been robust. We depict the current competitive environment in the post-acute care market based on recent acquisitions in this report. Acquisition Commentary from Large Post-Acute Operators: We have attempted to aggregate all of the recent acquisition related commentary from executives of large public companies that operate in the post-acute care continuum. Details of our findings are in the body of this report

Strategic Framework: Long-term we favor companies that manage the “Coordinated Care Process” and are integrated horizontally across the spectrum of post-acuity. Medium/near-term, we like firms who focus on quality/outcomes and have established referral networks and relationships with acute care hospitals

Valuation: Public post-acute care companies are being valued at 10X EV/EBITDA, based on calendar year 2015 estimates