

NAHC 28th Annual Meeting and Exposition

*October 12, 2009
Los Angeles, California*

*Homecare Valuations in the Real World:
Putting Theory into Practice*

*Jack J. Eskenazi, Jr. , Managing Partner
Healthcare Advisory Partners*

*Brian Bruenderman, Director of Development
ResCare*

Healthcare Advisory Partners
Copyright 2009 All Rights
Reserved

Overview

- *Concepts of Value*
- *Value Drivers*
- *Capitalization of Earnings Method*
- *Case Studies*

Concepts of Value

- *Market Capitalization*
- *Book Value*
- *Goodwill*
- *Enterprise Value*

Enterprise Value

- *Comparables*
- *Buyers' Perspective*
- *Sellers' Perspective*

Value Drivers

- *Determine Premium or Discount*
- *Qualitative Value Drivers*
- *Quantitative Value Drivers*

Qualitative Value Drivers

- *Business Mix*
- *Geography*
- *Management Depth*

Quantitative Value Drivers

- *Size*
- *Trends*
- *Margins*

Financial Statements

- *Transparent Financial Reporting*
GAAP
- *Accrual Basis Financial Statements*
- *Break Out Direct and Administrative Expenses*

Capitalization of Earnings Method

- Service Companies use Income Approach*
- Boil Complexity Down to Single Number*
- Enterprise Value is Expression of Earning Power of Investment*

EBITDA

- *Reproducible Cash Flow*
- *Reliable # for Any Buyer's Model*
- *Adjusted EBITDA*

Adjusted EBITDA

- *Nonrecurring Expenses*
- *Owners' Compensation*
- *Personal Expenses*
- *Add Backs & Subtractions*

No Magic Formula

- *EBITDA Multiplier*
- *3-5x Adjusted EBITDA*
- *Transaction Structure*
- *Convention Due to Historical Pattern: Not Prescriptive*
- *Typically between 1xGP and 1xRevs*

Real World Context

- *Market Conditions*
- *Regulatory Environment*
- *Financing*

Formulas Must be Applied with Intelligence

- *Analyze within Context of Industry and Individual Benchmarks*
- *Is Operation Reproducible?*
- *Guideline – Not Prescriptive*

Case Study: Small Transactions

- *Very Common but Formulas
Least Applicable*
- *Licensure*
- *Small but Viable*
- *The Overachiever*

Case Study: Medium Transactions

- *\$2 - \$15 Million*
- *Standard from which Formula is Derived*
- *Formula is Most Applicable*
- *Premium*
- *Discount*

Case Study: Large Transactions

- *\$15-\$25+ Million*
- *Platform Investment*
- *Size Premium May Exceed
5xEBITDA Ceiling*
- *Strategic Buyer*
- *Financial Buyer*

Case Study: Largest Transactions

- *Exceptional Cases*
- *Often Publicly Traded*
- *Often Exceed 5xEBITDA*
- *Apria/ResCare/Healthfield/Addus*

Conclusions

- *Formulas Reflect Market Parameters*
- *Formulas Must be Applied Intelligently*
- *Market is Active and Robust*
- *Good Companies Available for Premium*
- *Weaker Companies Available for Discount*