

ABOUT AMERICAN HEALTHCARE CAPITAL

American HealthCare Capital is a nationwide corporate finance and mergers & acquisitions advisory firm that specializes in meeting the needs of middle market healthcare providers. **American HealthCare Capital** is recognized as one of the most experienced and productive corporate finance and mergers & acquisitions advisory firms in the healthcare industry. As a finder, we recognize the need for a unique approach to the healthcare services sector. **AHC** is active in every modality within healthcare services including but not limited to homecare, hospice, DME/IV/O2, medical staffing, acute care, long term care, psychiatric care, diagnostic imaging, and all types of pharmacy. We pride ourselves on our intimate, real time knowledge of the marketplace and on our long-standing position in the healthcare finance and mergers & acquisitions community. We also offer instruction for continuing education credits at state and national trade association conferences. Because we are always in the market, **AHC** knows who's buying at a premium, who's selling for a discount, and what deals can get financing.



Contact us today for a FREE valuation!

Mergers, Acquisitions and Divestitures

The decision to pursue a merger, acquisition or divestiture is determined by the strategic objectives of the ownership of the company. Both sellers and buyers must consider quantitative and qualitative elements of the decision. Naturally, sellers want as much money as they can get for their companies and buyers want as much company as they can get for their money. Sellers' objectives can range from simply wanting to retire to wanting to find a partner to help grow the company before a final divestiture. Buyers are typically trying to grow, but they may be looking for a specific type of business, geography, certification/licensure, or other quality that is relevant to their situation. No matter what your strategic objectives are, **American HealthCare Capital** can find suitable partners with complementary goals so you have a full range of options from which to make an informed decision.

Advisory and Expert Witness Services

Sometimes all you need is a little bit of input from an expert. **American HealthCare Capital** offers advisory services to those who need information on how much their company is worth or how to conduct a merger, acquisition or divestiture transaction. We provide business valuations for insurance, tax, marital or partner dissolution, general succession, ESOP, or any other purpose. We also provide litigation and arbitration support with expert witness services including document analysis and testimony.

Corporate Finance

Capital is essential for any company to grow. **American HealthCare Capital** understands the special cash flow needs of the healthcare provider. We serve as the connective tissue between healthcare providers and the financial marketplace. **AHC** provides access to accounts receivable, equipment, real estate, and private equity financing as well as senior debt term loans.

American HealthCare Capital · Executive Offices

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M&A GLOSSARY OF TERMS

Break-Up Fee: A fee that is payable to the seller or buyer if the other party backs out of a transaction after signing a letter of intent; penalty for causing due diligence without closing the deal.

Broker: A licensed agent of a principal that is registered with the state department of real estate.

Buyer (Financial): A financial buyer is an equity sponsor that uses institutional and private capital to create a portfolio of operating companies.

Buyer (Strategic): A strategic buyer is an actual operating company (usually in the same or a similar business) that makes acquisitions in order to grow.

Confidentiality Agreement: A binding contract that holds signatories liable for damages resulting from the disclosure of proprietary information.

Covenants: Promises to do or not to do something (e.g. non-compete agreement).

Definitive Purchase Agreement/Asset Purchase Agreement: The binding contract that makes the divestiture official, subject to the final change of ownership.



Divest, Divestiture: To sell off or the act of selling off an asset.

DSO: Days Sales Outstanding; average number of days required to collect accounts receivable.

Due Diligence: On site inspection of the clinical, operational, and financial records of the company to allow the buyer to verify the representations made by the seller.

Earn Out: Opportunity for a seller to increase total consideration above the enterprise value of the company by staying with the new owner to achieve agreed upon performance objectives in exchange for additional consideration.

EBITDA: Earnings Before Interest Taxes Depreciation and Amortization: a universal measure of financial performance calculated by adding interest, depreciation and amortization back to the pretax net profit, commonly used to derive the enterprise value of a company in conjunction with a multiplier.

EBITDA, Adjusted (AEBITDA): A normalized EBITDA calculated by adding back reasonable personal and non-recurring expenses subject to explanation and review.

Enterprise Value: The anticipated selling price of a company based on a valuation analysis. Actual selling price may be higher or lower depending on market conditions.

Finder: An unlicensed intermediary who has been engaged by either a seller or a buyer to introduce them to prospective merger and acquisition candidates and/or financing sources; not a broker nor an agent.

G&A: General and Administrative: expenses other than those associated with the direct cost of goods and services provided including officer salaries, rent, interest, depreciation and other discretionary expenses.

Gross Profit: A measure of financial performance determined by subtracting the direct cost of goods and services provided from the revenue. Gross Profit does not include officer salaries and other discretionary G&A expenses.

Letter of Intent (LOI): A written offer based on the representations of the seller that is usually non-binding (except for confidentiality and “no-shop” provisions) and subject to due diligence.

M&A: Mergers and Acquisitions: the buying and selling of companies.

Non-Recurring Costs: Unscheduled one-time costs that are added back into the adjusted EBITDA calculation because they do not impact the revenue, gross profit or earnings trends.

Promissory Note: A written promise by the buyer to pay a specified portion of the total consideration (usually with interest) at an agreed upon time after closing, subject to the satisfaction of all outstanding contingent liabilities by the seller.

Recast or Restated Financials: Financial statements that present the calculations used to determine the adjusted EBITDA.

Representations and Warranties: Statements that another party is relying on as factual (e.g. “the company does not have any tax liens”).

Sale (Asset): In an asset sale the buyer only buys certain core assets of the company usually not including cash, accounts receivable and any liabilities.

Sale (Stock): In a stock sale the buyer buys the entire corporation usually including all assets and liabilities.

Success Fee: A fee that is only due to an intermediary upon the successful close of a transaction.

Total Consideration: Everything the buyer gives the seller in exchange for the business opportunity including cash, stock, promissory notes, assumption of debt, earn outs, or any other material consideration.

Transactional Attorney: An attorney who specializes in M&A transactions.

Valuation: The act of estimating the value of a business opportunity.

Value Drivers: Individual company characteristics that can impact enterprise value.

DIVESTITURE PROCESS

In order to maximize value, it is very important that the divestiture process be thoughtfully organized. **American HealthCare Capital** has the experience and expertise to facilitate an efficient and orderly divestiture process. Each step in the process presents opportunities and risks that have direct bearing on the final price.

All Sellers should:

1. Develop an Exit Strategy

- Identify objectives and timeline
- Research marketplace
- Prepare operations to maintain positive trends

2. Determine Enterprise Value

- Recognize key value drivers
- Collect and analyze data
- Get third party valuation

3. Bring to market

- Develop and qualify all viable prospects
- Execute confidentiality agreements
- Narrow the field



4. Letter of Intent

- Analyze written offer of price and terms
- Propose counter offer if necessary
- Buyer conducts due diligence

5. Definitive Purchase Agreement

- Use qualified Transactional Attorney and Tax Advisor
- Plan transition using management agreement, non-compete, etc.
- Close and Fund



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MISSION STATEMENT

American HealthCare Capital is proud to add value to the healthcare community. AHC enables healthcare providers to maximize their potential through financing and mergers & acquisitions. Our nationwide team uses a collaborative effort to exhaust every viable option for each and every engagement.

Mission Statement

- I. **American HealthCare Capital's** purpose is to facilitate the growth of healthcare organizations by providing access to capital and to the mergers & acquisitions marketplace.
- II. The **American HealthCare Capital** professional is an accomplished intermediary, disciplined in all aspects of healthcare finance and mergers & acquisitions.
- III. **American HealthCare Capital** is dedicated to delivering the highest level of confidential, personalized services to the healthcare provider.



CONFIDENTIALITY

At **American HealthCare Capital** we understand that the sensitive nature of each transaction requires total confidentiality. Employees, patients, suppliers, and the competition need not know your intentions until you are ready to announce that a deal has closed. We guard your proprietary information: executing confidentiality agreements with every qualified prospective buyer, seller, or third party financing source.

Testimonials

"I was enormously pleased with your communication and willingness to work until the job was completed. Equally impressive was the level of services you provided. My experience with your company has been fabulous! From the seller's perspective, the process was flawlessly executed. Thank you!"

*Lora Hoppes, Former Partner
Homecare Network of Indiana Anderson, Indiana*

"AccentCare has worked with American HealthCare Capital on the acquisitions of two home care agencies. Our experience has been that the sellers they represent are committed and credible and that the disclosures and information flow are sufficient to complete due diligence and consummate the deal."

*Vince Cook, Chief Financial Officer
AccentCare, Inc. Irvine, California*

"After I lost my husband, the business declined and I wasn't interested in devoting the energy required to restore it. I was seriously considering closing the agency until I spoke with you. Thank you for helping me to get what I consider to be a very fair price."

*Anne Guzzi, Former Owner
Staff Relief Nursing Agency, Inc. Bridgeport, Connecticut*

"I have been in the nurse staffing business for over twenty years and when I decided to retire, I contacted the people at American HealthCare Capital. They helped me sell my business for a reasonable price in a reasonable amount of time. They introduced several qualified buyers and I'm confident that I went with the right one. I would recommend American HealthCare Capital without qualification."

*Jana Mar, Former Owner
Staffing Partners Phoenix, Arizona*

VALUATION QUESTIONNAIRE



American HealthCare Capital

CORPORATE FINANCE • MERGERS & ACQUISITIONS

Background Data

Company Name _____ Ownership Type (S Corp, C Corp, LLC, etc.) _____ Years In Business _____

Address _____ Suite # _____ City _____ State _____ Zip Code _____

Name of Contact _____ Title _____ Email Address _____

Office Phone _____ Cell Phone _____ Home Phone _____

Which number is best to reach you at? Office Phone Cell Phone Home Phone

Is there anything special about the company and its location?

Operational Data

What service area do you cover? (List of counties or cities, number of miles from office, etc.)

What is the core business? Are there any other lines of business? (Home Health, Hospice, Pharmacy, DME, Behavioral Health, PT, LTC, etc.)

Please provide a breakdown of payor sources as a percentage of revenue.

How many employees vs. independent contractors? Please provide an organizational chart or number of employees with list of positions.

Financial Data

Total Annual Revenue _____ Gross Profit Margin _____ Adjusted Pre-tax Profit _____

Is your business increasing, declining, or flat?

Are there any outstanding liabilities such as law suits, tax liens, or judgments?

Exit Strategy

Why are you selling?

Is there any interest in staying with the company?

M&A FREQUENTLY ASKED QUESTIONS

Q. How much is my company worth?

A. Many healthcare service providers sell within a range between 3-5 x normalized EBITDA; that is to say, a multiplier of EBITDA. This most commonly used formula is a pretax earnings multiplier that assumes an asset purchase where the seller keeps the cash and accounts receivable and is responsible for any liabilities associated with the company. Larger, more profitable companies can sell for a premium above the range while smaller, marginally profitable companies can sell for a discount below the range. Actual financial and operational data is required to do a genuine valuation. At **American healthcare Capital**, we offer a FREE “no strings attached” preliminary valuation to any healthcare provider who wishes to investigate a divestiture.

Q. How long will it take?

A. The seller has a lot to gain by following a carefully measured process. IN order to allow time for: a) the collection and analysis of data for valuation, b) the qualification of prospective buyers and the execution of confidentiality agreements, c) the negotiation of the letter of intent, d) the completion of due diligence, and finally, e) the negotiation of the definitive purchase agreement and the transfer of all applicable licenses, most sellers can expect a 60-90 day process from the decision to sell to the close of the transaction. In a hot market the timetable can be accelerated, but in cooler times the pace can be glacial.

Q. Do we know a buyer?

A. Yes! **American HealthCare Capital** has ongoing relationships with active buyers of homecare, DME/IV/02, medical staffing, acute care, long term care, diagnostic imaging and all other healthcare service providers. However, the M&A marketplace is subject to constant change as market conditions cause buyers to become sellers and sellers to become buyers. Because we are always in the market, AHC knows who’s buying at a premium, who’s selling for a discount, and what deals can get financing. If we don’t already know enough good candidates, we will conduct a dedicated search to identify and qualify new prospects. We are always happy to discuss current market conditions.

Q. What is the difference between an asset purchase and a stock sale?

A. In a stock sale, the seller sells the actual corporation including all assets and liabilities, usually including cash, accounts receivable, bank debt, and all IRS/CMS liabilities. In an asset purchase, the buyer only buys certain core assets of the company, usually leaving the seller with the cash, accounts receivable, and all liabilities associated with the company. Whether a transaction is an asset purchase or a stock sale, who actually gets what assets and liabilities at closing is entirely negotiable. Generally speaking, the seller gains a tax benefit from a stock sale and the buyer gains a tax benefit from an asset purchase. Because of the risk associated with contingent liabilities, many (but not all) transactions in the healthcare industry are asset deals. In all cases, it is extremely important to consult with a qualified tax advisor and an experienced transactional attorney before entering into any binding agreements.



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Q. *What about personal expenses that the seller runs through the business?*

A. The most commonly used fundamental tool for valuation analysis is EBITDA. In the case of a private company with significant personal (e.g. country club dues, fancy cars, etc.) or non-recurring expenses (e.g. fire, lawsuit, etc.), it is appropriate to calculate an adjusted EBITDA and to present a recast or restated financial statement that reflects the normalized financial characteristics of the company along with the actual numbers. However, it is absolutely imperative to disclose, explain, and defend each assumption used to adjust the actual EBITDA in a clear, honest, and forthright manner.

Q. *What is required during due diligence?*

A. Due diligence is the verification of all representations made by the seller. Healthcare sellers can expect a buyer to exhaustively review all clinical, operational and financial records. For most sellers this process should require one or two representatives of the buyer to spend a few days at the corporate headquarters of the seller. The buyer should immediately conduct a final analysis of all needed information and proceed to the negotiation of the definitive purchase agreement with the seller. If due diligence verifies the representations of the seller, the definitive purchase agreement should reflect the price and terms agreed to in the letter of intent. The price and terms may be renegotiated up or down after due diligence if new confers are discovered or if the process takes so long that the performance of the company warrants a change to the original agreed price and terms.

Q. *How do we maintain confidentiality?*

A. American HealthCare Capital understands the sensitive nature of a divestiture to all parties concerned. We maintain complete confidentiality of proprietary information. Every prospective buyer must sign a binding nondisclosure agreement and the disclosure of any information is strictly limited to appropriate individuals who have a legitimate need to know in order to close the transaction.

Q. *What is the difference between a “Finder” and a “Broker”?*

A. “Business Broker” is a legal term of art with a specific meaning: a licensed agent of a principal that is registered with the state department of real estate. As agents of principals, brokers have certain fiduciary responsibilities that entitle them to prepare data, negotiate, and conduct due diligence on behalf of the principals they represent. Because of licensing requirement, business brokers typically limit their practice to a particular state rather than focusing on a specific industry. A “Finder” is not required to be licensed and is not an agent of the principal: Finders are primarily responsible for making introductions and acting as intermediaries between principals. Finders are usually professionals from a particular industry who are knowledgeable about the national M&A market place of that industry. Although finders may offer their opinions, they do not dispense formal advice, prepare documentation, or negotiate on behalf of sellers or buyers. Principals use finders to identify opportunities but must rely on advice from attorneys, CPAs, and possibly other advisors to analyze and act on the opportunities introduced by the finder. AHC is proud to be one of the leading finders in the healthcare services industry.

WHY SOME DEALS DON'T CLOSE

The healthcare services mergers and acquisitions marketplace is very robust. There are consolidating buyers in every segment using acquisitions to gain advantage within this highly fragmented industry. Even though the environment is conducive to successfully closing transactions, some deals don't close.

Although it may be an unpleasant topic, we think it's important to address some of the reasons why certain deals don't close. Typically there is something about the company or current market conditions that prevent that particular transaction from being viable at that particular moment.



Company

Individual company characteristics that can impact the selling price are known as value drivers. Certain value drivers are commonly associated with a given company not yielding the premium demanded by the seller.

Trends and Margins: revenue, gross profit, EBITDA. Buyers make acquisitions to help them grow. If an acquisition candidate has a slow growth rate or weak gross or net margins, the buyer will not pay a premium. If a seller lacks critical mass in terms of revenues or management depth, buyers will discount accordingly.

Liabilities: IRS, CMS, others. Sellers should expect to satisfy all outstanding liabilities from the proceeds of the sale. Any misrepresentations by the seller can cause buyers to lose interest. If the proceeds from the sale cannot satisfy all outstanding liabilities, sellers may not want to close a transaction. If the seller cannot transfer clear title and all necessary licensure, buyers may not want to close a transaction.



Market Conditions

Merger and acquisition market conditions can fluctuate drastically due to circumstances beyond anyone's control. No matter how well an acquisition candidate performs, it must be considered within the context of the overall marketplace.

Operating Environment: regulatory and administrative. Each segment within the healthcare services industry is subject to its own set of operating parameters that can impact value. Whether it may be PPS in Medicare, business mix in staffing, or workers' compensation issues in private pay, external operating conditions can definitely stimulate or diminish activity in the market.

Buyers in the Market: perceptions and premiums. How buyers perceive acquisition targets in the marketplace is a very important component of value. Of course buyers want stable, growing companies with competent

employees. Additionally, buyers need to be confident that they can reproduce and build upon the success of the selling company after the seller has moved on. Many buyers also tend to avoid or discount acquisition candidates that are dependent on one or two primary clients. For a buyer to pay a premium, the acquisition candidate not only has to be performing well at the time of the transaction, but must have solid future prospects and genuine upside potential.

Sellers in the Market: presentation and communication. A company may be very valuable, but if the seller doesn't make a clear and convincing presentation to prospective buyers, it will not earn the premium price that may be warranted. Sellers should provide a concise summary of services offered, major payors, and financial performance. All liabilities and their proposed dispensation should be disclosed. Sellers need to maintain the momentum of the transaction by providing follow up data to qualified buyers in a timely fashion. If the seller is enthusiastic about the transaction, buyers will be responsive: If the seller is reticent, buyers may lose interest and the deal might not close.



Most Deals Do Close

With proper care and consideration, both buyers and sellers can develop reasonable expectations and can unlock the maximum value of their companies through mergers, acquisitions and divestitures.

RECENT TRANSACTIONS ORIGINATED BY THE UNDERSIGNED

As a matter of record, **American HealthCare Capital** has transacted the following:

ResCare, Inc./30+ states

Acquisition of \$55 Million
Homecare Business
From Kelly Services
AHC Introduced the Buyer

**Albertsons Sav-On
Drugs/CA, AZ, KS**

\$40 Million Annual Revenue
*Divestiture of Health N' Home
Subsidiary*

Mercer Staffing

PA and 8 other states
\$20 Million
Recapitalization/Management
AHC Represented the Borrower

**HomeTech Medical
Services/CA, OR, WA**

\$40 Million Annual Revenue
Divestiture of Company

**Home Care Giver
Services/CA, NV, CO**

\$12.5 Million Annual Revenue
*Divestiture of Company
AHC Introduced the Buyer*

**Sibley Nursing &
Personnel/NY**

\$5 Million Annual Revenue
Divestiture of Company

**Complete Home Health
Care/TN**

\$4 Million Annual Revenue
Divestiture of Company

Regal Home Care/MO

\$3.5 Million Annual Revenue
Divestiture of Company

B&G Nurses Registry/NY

\$11 Million Annual Revenue
Divestiture of Company

Scotty Physical Therapy/NY

\$3.5 Million Annual Revenue
Divestiture of Company

**American Home Health
(Infusion)/IL**

\$2.5 Million Annual Revenue
Divestiture of Company

**Baker, Anderson & Christie
Homecare/CA**

\$2.5 Million Annual Revenue
Divestiture of Company

White Home Care (DME)/NY

\$2.5 Million Annual Revenue
Divestiture of Company

**Ambassador Nursing
Care/PA**

\$2.3 Million Annual Revenue
Divestiture of Company

Staffing Partners/CA

\$2 Million Annual Revenue
Divestiture of Company

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**On Duty
Metropolitan/OH**
\$2 Million Annual Revenue
Divestiture of Company

**Progressive
Nursing/ID**
\$2 Million Annual Revenue
Divestiture of Company

**Unity Home Health
Services/FL**
\$1.2 Million Annual Revenue
Divestiture of Company

Home Care Plus/IN
\$1.6 Million Annual Revenue
Divestiture of Company

At Home Limited/NY
\$1 Million Annual Revenue
Divestiture of Company

Lisenby Home Care/FL
\$1 Million Annual Revenue
Divestiture of Company

**Staff Relief Nursing
Agency/CT**
\$1 Million Annual Revenue
Divestiture of Company

Caring People/NJ
\$500,000 AR Line of Credit
*AHC Represented the
Borrower*

**Piedmont Homecare
Agency/NC**
\$800,000 Annual Revenue
Divestiture of Company

This is a representative sample, not an exhaustive list. Unless otherwise noted, American HealthCare Capital represented the seller in each of the transactions listed above.

Large or small; top performers or distressed assets; sellside or buy-side: If you are considering a divestiture, acquisition or recapitalization, please give us a call to discuss how we can add value to your transaction.