

Company Name: Almost Family, Inc. (AFAM)  
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<<Brian Tanquilut, Analyst, Jefferies & Company, Inc.>>

All right, good morning. Welcome to the 2017 Jefferies Global Healthcare Conference. I'm Brian Tanquilut, I'm the healthcare services analyst here at Jefferies. Our next company is Almost Family, AFAM. They're the third largest home nursing provider in the country today. And joining us today is the Company's President and Principal Financial Officer, Steve Guenther. Now we're going to do a hybrid here, Steve is going to do a quick slide presentation, and then we'll go into a fireside chat format, even though we don't have a flame.

But, with that, I'll pass it on to Steve.

<<Steve Guenther, President and Principal Financial Officer>>

Good morning, everyone, thank you for your interest. I will cover fairly quickly here, about seven or eight minutes of brief overview. The Company, Almost Family was founded in the 1970's in Louisville as a home care company, we've been a home care company our whole lives. We are currently about an \$800 million run rate. We operate in about 340 branches across 26 states.

The slide here gives you a bit of a view of our breadth of operations. We have a home healthcare segment that is primarily in home skilled services. We have – actually with our first quarter release, we revised our segment presentation a little bit. It was the first quarter with the Community Health Systems JV, included in our operating results. So we reported a segment, we relabeled other home-based services which includes our Personal Care segment and our hospice operations. We have a third segment which is our Healthcare Innovations segment that we started about four years ago, to begin to broaden our horizons outside of just the homecare business and I'll talk more about that.

The CHS acquisition that we closed on the first day of this fiscal year, it's probably the most transformative thing that's happened to us in a long time. How we acquired about \$190 million run rate business and 80% interest in that business, gave us 74 additional branches. It is the nation's largest single home health hospital joint venture. You can get a sense of the geographic presence that we have and the scale that has come along with all of the development work that we have done over the past several years. We are not quite a national provider, but we have a broad national scale that really rivals everybody, but the largest single provider.

The growth of our business over the last 10 years or 12 years is shown in this slide. And you can see in the 2005 column, when we launched our strategic development plan about 12 years ago, we were a \$70 million company with about a \$30 million enterprise value.

Today, looking at the leftmost column here in the first quarter, we're about \$800 million in revenues, that's about a 22% compound annual growth rate. We've been growing EBITDA close to 25%, enterprise value has grown close to a 32% compound annual growth rate.

Leverage at the bottom of the page, we did an offering in January of this year, following the community transaction. The purpose of that offering was to reload or reset the balance sheet to allow us to continue to acquire. And I'll probably say the phrase; continue our trajectory more than once as we go through the Q&A.

In this innovation segment, this is something again we started this about four years ago. We're starting to see some of the peers do some of the same kinds of things. This was to broaden our horizons and get ourselves our mindset out of our own just our own little silo and understand how the world works.

So we have an assessment segment that does in-home assessments, primarily health risk assessments for managed care. We have a subsidiary called Imperium that manages ACOs. It's one of the larger ACO management companies in the country. We partnered with a couple of folks Sanju Bansal, the founder of MicroStrategies. Aneesh Chopra, former Chief Technology Officer for the United States Government and a data oriented company called NavHealth. The whole goal though of all of this is to try to deliver savings to bring payers, patients and providers, closer together and provide more care in patient's homes.

As we proceed through this innovation, we're seeing that it's helping us expand our business. It's helping deliver meaningful value to our payers. It's – we think we're a part of, we're not the predominant part of, but we're participant in the ACO phenomenon that's going on in the country right now that it appears to be having a real effect on total Medicare spend and how providers practice.

So let me just talk one more slide here. Clinical enhancement and alternate care delivery models; this is really where the rubber meets the road. So with our partnership with community and with some work that we're doing in this side, at some point may have managed care on it as well.

But this is real work that we're doing with community and some other hospital, friends of ours and we won't call them partners yet, they're not equity partners, to really try to look hard at how patients are cared for, what are the clinical workflows that help patients move transitionally from their home to inpatient services, through the post acute services and back to their homes to their own care. And this is the part that's really exciting to us and the development of alternative care delivery models through that process, we think will help increase the level of sophistication of homecare as a meaningful part of the healthcare delivery system.

So as we think about growth, we've outlined on this slide, core market growth, market share gains, synergies from the CHS transaction, in better growth from the CHS

transaction. So we have a development plan with our partner for the development of additional home health assets and bringing those to hospitals that do not currently have them.

We're pursuing new JVs. And the community transaction brought a lot of attention to almost family in our capability with regard to JVs. We have a lot of interest. I'll talk more about that maybe in the fireside chat. We have a lot of interest in additional JVs. We continue to have M&A opportunities, much like we've had over the years, and in this final area of thinking about risk assessment – excuse me, risk models and further integration with managed care providers, we think there's a tremendous amount of upside opportunity.

So I'm going to stop there with this slide. I really like this slide, as we can't tell you where healthcare financing is going in this country. We don't know if Medicare advantage is going to take over the world. We don't know if we're going to get vouchers and block grants. We don't know if the ACO phenomenon will continue and make traditional Medicare a truly viable standalone payment system. We don't know if we'll go to a single payer system.

We do know whoever has the financial responsibility for taking care of patients. When they look at where the dollars go, they're going to want a solid home healthcare platform to help them care for those patients, whether they need to own it, lease it, buy it, rent it, they're going to want that service capability, and so we're building that service capability in that platform for that – for those outcomes really no matter where they go, right?

<<Brian Tanquilut, Analyst, Jefferies & Company, Inc.>>

Steve, thank you for that presentation. You know that there is one slide there that I did not expect, the 2005-2017 comparison. \$37 million market cap, I think that was when we first met. So reset today, if you don't mind just giving us sort of the state of the union at Almost Family, I mean, where do you see the Company? I know this is a great slide here, last slide, but what do you need to do going forward strategically, what are your focus areas, and where do you see the company going in the next three years to five years?

<<Steve Guenther, President and Principal Financial Officer>>

All right. Sure. So continuing the trajectory that growth progress that we've made, expanding our platform, building out the geography and increasing our depth of penetration; we think about this in several areas. The hospital JV opportunity is the one that seems to be the hottest at the moment. I think a lot of hospitals that I know, a lot of hospitals are talking about this. They're really interested in talking about it, we probably have at least a dozen, active conversations going on, about half of those are folks who have acquired communities – some of community assets and the other half are folks that we know in the marketplace. I think that's a really important part of our development.

We may well have reached an inflection point in how home healthcare is viewed. And I always – I probably say that maybe a little bit more than I should, I'm always a little bit reticent to do so, but managed care appears to really be paying attention to home healthcare right now. And this is something that in home healthcare for a long time folks look at and say, well, if it's so great, I get the whole government part and Medicare pays for it and Medicaid pays for personal care, but where's managed care in this.

And I think it's pretty clear at this point. One company in particular, way out in front of all the other talking about their interest in home healthcare in particular. But I think all of the managed care organizations are looking at how they might vertically integrate. I don't think very many of them are looking at buying hospitals or nursing homes, but I think there's a whole lot of interest in other aspects of the provider network whether that's owning physician practices, clinics, ambulatory surgery centers or homecare.

So government relations, that's really critical to our business. Substantially all of the funding for the elderly and disabled in this country is managed by the federal government, whether that goes through a managed care organization, state program, traditional Medicare. We the people have this statutory commitment to care for our elderly and disabled. And so after been I'd say until about seven years ago, a little bit sleepy on this. We've got a wake up call, we've been very active in Washington trying to help, and I think may be succeeding in helping. So I think the tone from Washington is a lot different with regard to home health than it was seven years or eight years ago.

The ACO environment, I was absolutely stunned when I saw the latest numbers. So 58% of traditional Medicare enrollees are now covered by ACOs, under the Medicare Shared Savings Program. Contrast that with 31% of Medicare enrollees who are covered by managed care. Now those ACO beneficiaries most of them don't even know they're covered by an ACO. But what this is doing, it's driving real engagement from physicians and hospital, management teams, discharged planers, practice managers, and what actually happens when the patient leaves the hospital or the patient is not in the physician's office.

Has some interesting sort of side effects, but I think it's an incredible change. And I think it's going to help us from a competitive perspective, it's going to call for us to be ever more sophisticated. And I think it's going to put more value frankly in the larger providers who can cover broader territory and deeper sophistication.

<<Brian Tanquilut, Analyst, Jefferies & Company, Inc.>>

So you covered a lot of bases there that we need to go back to, but let me start with community. So pretty sizable acquisition for you guys are joint venture, if you want to look at it that way; where is that right now? I mean, you're six months into it. What have you seen so far in your experiences? A lot of people in this room know of community from the hospital side and understand that their volumes have been challenged. So how does that trickle down to your business? And then number two, as community divests

their hospitals, how does that affect the joint ventures? I mean, is that an opportunity or is that a risk?

<<Steve Guenthner, President and Principal Financial Officer>>

Right. So let me take it from the top. First, the integration is going quite well. A lot of the synergies that we expected to get were going to come in benefits and they have come with relatively little disruption. From an integration perspective, the back office processes are moving according to plan, the biggest surprise from an integration perspective is really the lack of surprises; usually you get something that pops up.

The community as a partner has been tremendous. These folks are our business friends, we're both incredibly committed to continuing this relationship and to growing the relationship into the hospitals, at least a select group of the hospital, say 30 or so, that community still does not have home healthcare in. And so we're in the midst of a business development plan that over the next 12 months to 24 months should see us acquiring and building out, starting up in some cases, home health assets, additional community hospitals. So then we get to this divestiture area.

And community has been very public about what they're doing here. They've announced somewhere around 30 hospital transactions. And you could perceive this as a – at least a partial risk and I guess frankly you probably have to at least consider that. We would point out that only about a third of the business that comes into these home health assets comes from community hospitals, from community health system, I will say, CHS, let me get it that way, CHS hospitals. The rest of it comes from a lower KC healthcare community in those marketplaces.

Now, as these eight or so new buyers take control of these assets, those are eight new leads that we're pursuing for additional joint ventures. I don't have anything to announce yet today. We are working actively, there's receptivity in conversation, varying levels of degree. Most of them are working on the fact that they just bought a whole bunch of hospitals, so they have a lot of transitional work, in some cases permanent financing work to do, one in particular just merged with another private equity based hospital. So I think that'll take a little bit of time for that the pull through, but we are actually optimistic. We see that as a far more of an opportunity than a threat.

<<Brian Tanquilut, Analyst, Jefferies & Company, Inc.>>

So, Steve, just to clarify on that point. So, Steve, Stuart is an example, right. So Stuart gets old, that doesn't necessarily mean that you lose the referral flow from that hospital right away, right?

<<Steve Guenthner, President and Principal Financial Officer>>

That's right.

<<Brian Tanquilut, Analyst, Jefferies & Company, Inc.>>

And then the second part is, what you're saying here is you now have the opportunity to go to Stuart and ask for basically another joint venture or some referral partnership for all the other 20 or so hospitals available.

<<Steve Guenther, President and Principal Financial Officer>>

That's right. That's exactly right. And we'll continue to work through at the local market, the relationships that cause those referrals to come from those hospitals to our homecare. I'd point out that in places where hospitals own their own homecare and they are aggressive at will say shutting out other homecare agencies, they tend to get 60% to 65% of their own discharges. So the law requires providers to honor patient choice, patient choice is influenced by provider choice, about that I mean physician choice.

And so I think it's – I don't think the number ever goes to zero or goes to 100%. I think they'll always be the opportunities to pursue and develop. I would point out that Stuart home market is Boston, where they have 10 hospitals and Boston is one of our largest homecare markets, inside of Almost Family.

<<Brian Tanquilut, Analyst, Jefferies & Company, Inc.>>

Got you. So going back to one of your previous slides, where you laid out what the growth drivers are. So let's go to the core business for a second. We've seen your organic growth accelerate in the last six quarters probably. And Florida was an issue at one point, now that's flattening out price starting to turn positive. So how do you see the organic growth trajectory for Almost Family from today, say, over the next two years, given all the other things that you've discussed with CHS, ACOs, the views from payers and other referral sources?

<<Steve Guenther, President and Principal Financial Officer>>

Right. So in terms of projecting forward, the development plans with CHS or I guess they're sort of plasy, they're hybrid organic, aren't they. There are opportunities, some of those will be acquisitions, some will be startups. I think the guidance we've given for a very long time is low single-digits organic growth, right. So the market's probably moving around 2% just in terms of population. Managed care growth has been taken a big chunk of that over the past several years, although that growth rate seems to be declining. And that actually influences I think to some degree managed cares interest in home health and it's a little – you have to connect some dots to get there.

But I would expect that kind of growth rate, plus whatever market share we can take. It's early to tell, but it feels like Florida has made a significant turn and it feels like the competitive environment in Florida is changing. So this is a little bit like measuring consumer confidence, right. You'll know sometime, what, three, four quarters down the road what really happens are trying to measure job gains or job losses. So trying to

understand exactly what's happening, while it's happening is always a little bit challenging, but we saw a very nice surgeon, admission growth rates in Florida, accompanied by a drop in recert rates. We've seen this drop in recertification rates, this is where the patient needs episodes past the first one.

And we've seen this across all of the public companies, who between us probably have 25% share in the country, so that means this is a national phenomenon. Our best theory at the moment is that the ACO engagement is driving this. If you think about how could it happen so quickly from a Q4 run rate to Q1 run rate, the only thing I think that can cause that is some kind of fundamental endemic change in the marketplace. And when I saw those ACO penetration numbers, I think it increases the probability of our theories right there.

<<Brian Tanquilut, Analyst, Jefferies & Company, Inc.>>

So to that point, does that basically mean that you are gaining share from the ACOs in the hospitals in terms of discharges away from facility-based providers or just gaining share in general, even against your smaller competitors? But it's a more managed patient that just comes with a lower recertification rate.

<<Steve Guenthner, President and Principal Financial Officer>>

Right.

<<Brian Tanquilut, Analyst, Jefferies & Company, Inc.>>

So the admission rate is higher, but it is a shorter length of stay patient.

<<Steve Guenthner, President and Principal Financial Officer>>

Right. So one of the knocks on homecare for a long time from all over the place, from the federal government, for managed care, and even for physicians is, you don't really know what you do. Tell me again what you do for the patient. And in which cases should I order homecare and which cases should I not. So the closer we get to that conversation and the more engaged we are with the physicians, we believe that we are taking patients in the homecare that used to go to SNFs, that used to go to ERFs, we're getting them sooner.

They engaged physicians and importantly practice managers are saying, okay, that's great, but we're not really not researching patients, we will shorten up the length of stay and see what happens, because now we get it, we understand that we should move more patients to homecare from higher cost setting so we could see how that can move our overall Medicare spend down, but we want to try shorter length of stay and see where that takes us.

<<Brian Tanquilut, Analyst, Jefferies & Company, Inc.>>

So, Steve, we've talked a lot about growth and the traditional Medicare business. So one last question on that front. As we think about M&A, right, so you did the CHS acquisition January 1, essentially. You went from being 2.5 times to 3 times leverage down to sub 2 times right now. Do you see yourself leveraging back up on the balance sheet given the opportunities that are in front of you. And where do you think you can bring sort of the EBITDA run rate to if you're open to talking about over the next 12 months to 18 months?

<<Steve Guenthner, President and Principal Financial Officer>>

Okay. Well, I'll be a little bit careful about trying to predict pretty specific numbers, but I will tell you that the reason we did our offering in January; as we said at the time and have said, since it's a reload on the balance sheet. M&A particularly for more sizable transactions take 6 months to 12 months to bring something through the pipeline. Sellers have to get comfortable with their buyers, they have to run their processes, you have to go through the diligence, etcetera. The negotiation usually something goes wrong, you get a part, get back together etcetera, etcetera.

So it was necessary for us to get back in the game quickly; not so we could do something in the first half, but so we could do something in the second half, in the first half of the 2018. And so we – it worked, people hurt us, two things have happened. Everybody in the country recognizes the credibility that comes to Almost Family as a result of the CHS acquisition in our size and our scale at this point. And so for the right transactions we're right back in the game, as we proceed through this as we continue to build our platform, a cyclical approach to using available debt to get transactions done and periodically delivering and expanding the market cap and liquidity of the shares could well turn out to be a pattern.

<<Brian Tanquilut, Analyst, Jefferies & Company, Inc.>>

All right. So here's sort of the last topic that I want to discuss. One of the things you mentioned earlier was that there's increasing interest from managed care organizations in homecare. So I think a lot of the people here in this room have seen the Humana slides, where they specifically said they want to deploy capital towards home nursing agencies. We've heard united after they bought Surgical Care Affiliates because they want to go to home health. And I think ADNAS talked about getting closer to the patient in home or community based settings; so given all that, there clearly is capital that is waiting to be deployed.

You're a standalone. How do you see that from where you sit? I mean do you see home health as a standalone business three years from now or do you think that home nursing should be part of an MCO or a hospital for that matter? I mean, where do you see yourselves and frankly the industry.

<<Steve Guenthner, President and Principal Financial Officer>>



So I know a lot of other folks who commented on this. I think trying to predict each crystal ball out and predict what other people are going to do transactionally is maybe something of a fool's errand. Appreciate the candor and directness that the Humana put in their slides. Our management team and our board, we believe together that we have a phenomenal strategic opportunity to continue the development of our business. Having said that as a public company, if something comes in down, we'll respond to it as a public company should.

<<Brian Tanquilut, Analyst, Jefferies & Company, Inc.>>

So in other words, do you feel like, to that point as a public company you are open, because there are management teams out there who see the strategic vision and say, we want to execute on that strategic vision before opening the door to listening to strategic buyers if that's the case. So where you sit today; you guys are open to talking?

<<Steve Guenther, President and Principal Financial Officer>>

Well, look, this is a value proposition, right, so we work for you guys. Some of you guys out there, I know our shareholders, and some of you folks on the webcast, and I know our shareholders that's who we work for. And our job is to create shareholder value. We're going to do that with our strategic plan, our execution. And if somebody else's strategic plan causes them to want to engage in a conversation. I don't know how we'd look you guys and say we won't talk to them or won't listen to them. But I don't want to get anybody confuse, we're not offering the company for sale, we're pursuing our strategic vision.

I don't feel and we don't feel the need to get the service platform into another part of the healthcare continuum. Homecare companies can stand alone just fine. We've been doing it for 25 years that I've been engaged here, in 35 that our CEO and board has been engaged. So I don't really feel like we have to go bolt ourselves on to something. In short, we're pursuing the plan until there's a better way to maximize shareholder value.

<<Brian Tanquilut, Analyst, Jefferies & Company, Inc.>>

Got you. Thanks, Steve, and we'll have a break out in the other room. Thanks.