Inside:
• The Year in Acquisition Activity
• The Year in the Public Markets
• The Top 10 Events of 2003
• The Year in Valuation
• The Return on Research

The Braff Group is a merger and acquisition firm that specializes in the home medical equipment, home health care, hospice, staffing, specialty pharmacy, infusion therapy and eHealthcare market sectors. We provide merger and acquisition representation, strategic planning, and valuation services.

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Highlights
• M&A Activity up 10.4%
• Unduplicated buyers increase 44.8%
• TBG Composite Index gains 41.7% — reaches new all time high
• Home Health and Hospice Index soars 72.6%
• Valuations up and down reflecting Prescription Drug Bill and other market dynamics
The Year in the Merger and Acquisition Activity

It was another strong year for mergers and acquisitions in the broad home care and ancillary health care service sectors with a total of 180 transactions announced and or completed in 2003 — up 10.4% from 163 transactions in 2002.

Key Observations:

- For the third consecutive year, the Home Medical Equipment sector accounted for the greatest number of transactions. With 78 deals in 2003 — a 13% gain over 2002, HME volume contributed 43.3% of the total, up from 40.4% and 42.3% of total transactions in 2001 and 2002 respectively. The up tick in 2003 would likely have been substantially greater had there not been a significant drop in activity in the fourth quarter as buyers necessarily took a step back to evaluate the largely unanticipated and unfavorable language contained in the Medicare Prescription Drug Bill. The big question then is whether or not the fall off in Q4 is a harbinger of what to expect from the sector in 2004. In short, we think not. Based on recent activity and feedback from buyers regarding their acquisition interests, we anticipate that deal volume will rebound. That said, with outstanding and improving regulatory conditions in other sectors (discussed further below), as their M&A activity increases we may see HME’s dominant share of deals begin to fall off.

- With respect to merger and acquisition activity for the home health care industry, it has been a painfully slow recovery since deal volume all but dried up in the wake of the Balanced Budget Act of 1997 and the Interim Payment System. But with the Prospective Payment System in place since October 2000, activity (and valuations) have slowly but steadily improved — from 22 deals in 2001 to 34 and 41 in 2002 and 2003 respectively. That said, given outstanding market conditions and opportunities to achieve competitive advantages through consolidation, the sector continues to underperform, largely fueled by fears of future cuts in reimbursement. However, with pricing stabilized for at least three years via the recently passed Prescription Drug Bill, 2004 is poised to be a break-out year for home health M&A activity (see Top 10 Events of 2003 and The Year in Valuation).

- Health Care Staffing was the only sector to see a fall off in deal volume in 2003. Not surprising as revenue growth slowed dramatically during the year and even plunged into the red as hospitals and other institutions curbed utilization and demanded pricing concessions to stem what had been several years of unabated expansion. The good news? Three of the deals in 2003 were among the ten largest of the year, clearly demonstrating continued interest. And this incredibly cyclical business appears to have reached the bottom of the cycle and is primed to improve.

- Although Hospice transaction volume was flat in 2003, the year was notable in that two new private equity groups made platform acquisitions during the year and Roto-Rooter took control of Vitas by acquiring the 63% interest in the business it did not already own. Furthermore, the lone private equity group to acquire a platform hospice in 2002 completed its first two “add-on” acquisitions during the fourth quarter of 2003. As these private equity groups continue their expansion, and previously quiet Vitas enters the M&A market (as expected), we anticipate a surge in activity in 2004.

- While the Specialty Rx sector didn’t dominate the Top 10 Transactions in 2003 (with 3 deals) as it did in 2002 when it accounted for 7 of the largest deals of the year, it still made its mark both in terms of size and consolidation strategy. Caremark Rx’s acquisition of Advance PCS and Express Scripts’ acquisition of Curascript were two of the top 3 deals of the year. The transactions were also notable in that they were driven in large part by the anticipated synergies of combining Specialty Rx with Prescription Benefit Management.

- The breadth of active acquirers continues to expand as the number of unduplicated buyers in 2003 soared 44.8% from 67 in 2002 to 97 in 2003. Furthermore, average transactions
per buyer decreased 23.7% from 2.43 to 1.86 in 2002 and 2003 respectively. Both statistics clearly indicate that more buyers are getting into the game — completing perhaps one deal a year — representing viable alternatives to “repetitive” consolidators.

- Similar to the above, it is notable that the percentage of unduplicated buyers that are privately held increased from 50.7% in 2002 to 66.0% in 2003. Even more impressive, the percentage of deals private buyers accounted for rose from 28.8% to 48.9% in 2002 and 2003 respectively, clearly demonstrating that M&A activity is not limited to publicly traded firms.

- While the median size of the Top 10 deals (with announced purchase prices) rose from $66M in 2002 to $104M in 2003, it is more interesting to note that tenth largest deal was under $12M. A stark reminder that blockbuster deals notwithstanding, the “bread and butter” of M&A activity in the broad home care and ancillary health care services market comes from transactions under $10M in size.

<table>
<thead>
<tr>
<th>Sector</th>
<th>Number of Deals 2002</th>
<th>% of Total</th>
<th>Number of Deals 2003</th>
<th>% of Total</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Home Health Agencies</td>
<td>34</td>
<td>20.9%</td>
<td>41</td>
<td>22.8%</td>
<td>20.6%</td>
</tr>
<tr>
<td>Hospice</td>
<td>16</td>
<td>9.8%</td>
<td>16</td>
<td>8.9%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Staffing</td>
<td>24</td>
<td>14.7%</td>
<td>19</td>
<td>10.6%</td>
<td>-20.8%</td>
</tr>
<tr>
<td>Home Medical Equipment</td>
<td>69</td>
<td>42.3%</td>
<td>78</td>
<td>43.3%</td>
<td>13.0%</td>
</tr>
<tr>
<td>Infusion Therapy</td>
<td>6</td>
<td>3.7%</td>
<td>7</td>
<td>3.9%</td>
<td>16.7%</td>
</tr>
<tr>
<td>Specialty Pharmacy</td>
<td>14</td>
<td>8.6%</td>
<td>19</td>
<td>10.6%</td>
<td>35.7%</td>
</tr>
<tr>
<td><strong>Total Transactions</strong></td>
<td><strong>163</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>180</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>10.4%</strong></td>
</tr>
<tr>
<td>Unduplicated Buyers</td>
<td>67</td>
<td></td>
<td>97</td>
<td></td>
<td>44.8%</td>
</tr>
</tbody>
</table>

% Public vs. Non-Public Buyers | P 49.3% / N 50.7% | P 34.0% / N 66.0% |
% Public vs. Non Public Deals  | P 71.2% / N 28.8%  | P 51.1% / N 48.9%  |

Transactions per Buyer         | 2.43                 | 1.86       | -23.7%              |

### Top 10 Deals 2002 (a)

<table>
<thead>
<tr>
<th>Seller</th>
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<td>Gentiva Specialty Rx</td>
<td>Accredo Health</td>
<td>462,300,000</td>
</tr>
<tr>
<td>Amer. Homecare Sply.</td>
<td>Air Products</td>
<td>165,000,000</td>
</tr>
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<td>USBioservices</td>
<td>AmerisourceBergen</td>
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<td>Health Personnel Opt.</td>
<td>On Assignment</td>
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<tr>
<td>Patient Care</td>
<td>Schroder Ventures</td>
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<td>VitaRx</td>
<td>McKesson</td>
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<td>MIM Corporation</td>
<td>45,000,000</td>
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<td>Hemophilia Sunshine St.</td>
<td>Priority Healthcare</td>
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</tr>
<tr>
<td><strong>Total Transactions</strong></td>
<td></td>
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<tr>
<td><strong>Median Deal Size</strong></td>
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### Top 10 Deals 2003 (a)

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(a) Except as noted, includes only deals in which purchase prices have been made public. Excludes Braff Group transactions in which deal terms were not publicly announced
(b) Acquisition of only 67% interest. Value of 100% imputed at $650,000,000 based on the purchase price paid for the proportional shares purchased
(c) Purchase prices not disclosed, however estimated to qualify as a Top 10 Deal of 2003. Relative position in Top 10 also estimated. Excluded from Total and Median calculations
Top 10 Events of 2003

1. **NAHC Refutes MedPac Report on HHA Profitability.** When MedPac reported average profit margins for Medicare certified home health agencies of 21.9% in 2002 and projected margins of 23.3% in 2003, the reimbursement future of the industry was in jeopardy. Recognizing significant deficiencies in the report, the National Association for Home Care amassed and coordinated the resources necessary to collect and analyze a more representative, eye-popping 6,425 cost reports. Their analysis revealed that prior to the 15% cut initiated October 2002, average, un-weighted profitability was actually 5.15% and that after the cuts and the elimination of rural add-ons, projected 2003 profits would fall to .25% (that’s one quarter of 1%). More than anything else, this study likely convinced Congress to back off from home health reimbursement cuts.

2. **Nebulizer Medication Reimbursement Hit Hard.** The Medicare Prescription Drug Bill changes reimbursement for nebulizer medications from Average Wholesale Price (AWP) less 5% to AWP less 15% in 2004. More surprising — and potentially damaging however — are further adjustments to a new model of Average Sale Price (ASP) plus 6% in 2005. If taken literally, the margin is clearly not enough to cover procuring the drugs, warehousing them, taking orders, managing patient compliance, billing, collections, and delivery, and still leave room for a profit. Sanity may ultimately prevail and reasonable service and profit margins may be built into ASP. But for now, the near term outlook is gloomy.

3. **Health Care Service Stocks Surge.** In 2003, while the broad markets rose 29.7%, the TBG Health Care Composite Index surged 41.7%, led by the Home Health and Hospice and Long Term Care sectors which each posted gains of 70% or more. While bio-tech and medical devices have traditionally garnered the most attention from Wall Street, with returns like these and great prospects for the future, health care service companies are being targeted by the investment community. And with soaring valuations, publicly traded buyers will have more “arbitrage” room to price deals.

4. **The Institute of Medicine Issues a Report on Patient Safety and Nurses.** In November, the Institute of Medicine issued a report entitled “Keeping Patients Safe: Transforming the Work Environment of Nurses” that, among many topics, addressed the negative consequences of increasingly overburdened nursing staff. The institute concluded that substantial changes in nurse staffing practices is required, including maintaining “slack” staff to accommodate unpredicted fluctuations in need, minimum staffing ratios, public reporting of staffing levels and turnover rates, and more. With nurses so hard to find, these findings should clearly spike demand for health care staffing agencies. One cautionary note, however. The report suggests that due to a decrease in continuity of patient care and unfamiliarity with institutional clinical policies and practices, “whenever possible, health care facilities should avoid using nurses from temporary agencies to fill staffing shortages”. But given the extraordinary nursing shortage, “whenever possible” is limited indeed.

5. **Capital Gains Tax Reduced to 15%.** In May, legislation was passed to reduce the long term capital gains tax from 20% to 15%. With the stroke of a pen, in most situations, sellers received an automatic increase in their net after tax proceeds.
6. **Congress Stabilizes Home Health Reimbursement.** Perhaps the greatest concern of government reimbursed health care providers is price stability — or lack thereof. Well, in the Medicare Prescription Drug Bill, Congress did home health one better, granting the industry three years of market basket increases less 0.8%. From an M&A standpoint, with stability comes decreased risk, increased acquisition interest, and increased valuation. Just what the home health M&A market needs to jolt it awake after a prolonged period of less than spectacular activity.

7. **The Implications of Sarbanes-Oxley Becomes Real.** While Sarbanes-Oxley — the corporate governance legislation that beefs up financial reporting requirements and requires high ranking executives to personally certify financial statements, subject to civil and criminal penalties — was passed in late 2002, Corporate America experienced its full fury in 2003. Among the fallout: $750,000 to $1,000,000 annual estimated cost of complying with the provisions. The first Chief Executive to be charged under the provisions is from health care – Richard Scrushy from HealthSouth. And from an M&A perspective, buyers have ratcheted up their scrutiny of acquisition targets as due diligence has taken on new, legal implications.

8. **OIG Targets Joint Venture Arrangements.** On April 23rd, the Office of Inspector General (OIG) issued a Special Advisory Bulletin suggesting that certain Joint Ventures (JVs) and Management Services Agreements (MSAs) may violate anti-kickback statutes. While space does not allow for a review of the legal specifics, to a certain extent, they don’t matter. Because while many JVs and MSAs may, in fact, be in compliance with existing guidelines, many providers with these arrangements feel that the increased scrutiny and the risk that goes with it is simply not worth the benefit. As a result, appropriate or not, many agreements (along with their revenues, profits, and value) were dismantled immediately, and, for many would-be partners, at least for now, this market development concept is on hold.

9. **Quality Initiatives Rolled Out.** In March, CMS piloted the Home Health Quality Initiative, which measures and reports patient outcomes for individual home health agencies on 11 quality measures. In November, the program was rolled out nationwide along with a flurry of advertisements in 69 major newspapers identifying the largest agencies in their distribution area and the agencies’ performance on each of three of these measures. Similar programs will almost certainly be initiated in other health care service sectors. And, as quality moves from the ethereal to the real, it will likely become more significant in terms of identifying attractive acquisition candidates.

10. **Congress Gives a Boost to Rural Providers.** Courtesy of the Prescription Drug Bill, Congress made a deliberate effort to insure that patients in rural markets have access to quality care. Among the rural friendly provisions: $18 Billion for rural hospitals, in part, to raise reimbursement to levels similar to urban hospitals. A one year 5% rural add-on for home health providers. Exclusion of rural markets from competitive bidding for home medical equipment. We suspect this trend will continue. And as the economics of rural health care improves — both absolutely and compared to urban health care — so will the M&A prospects for providers in these markets.
2003 was an outstanding year as the bellwether TBG Composite Index outperformed the Broad Markets with gains of 41.7% vs. 29.7%.

Key Observations:

- The Composite index posted a new all-time high of 222.9 in November.
- On the strength of improved reimbursement, Medicaid reductions that were less than anticipated, and strategic divestitures of properties in high risk liability and litigation states, Long Term Care hit new all-time highs in six consecutive months and surged 92.8%.
- With sustained profitability and stable reimbursement courtesy of the Medicare Prescription Drug Bill, Home Health and Hospice became the first sector to top 400 in November and gained 72.6% for the year.
- Although the Home Medical Equipment sector posted new consecutive all-time highs in September and October, in the wake of the Medicare Prescription Drug Bill which contained unfavorable language for HME, the sector gave back more than half its gains for the year. With a modest decline of 3.8% in December however, the slide appears to be leveling off.
- While Healthcare Staffing was the only sector that declined in 2003, it ticked up 8.9% over the last 2 months of the year.
The Year in Valuation

External Factors Driving Valuation

In addition to many internal, company specific factors that impact valuation, there are a host of external, sector specific factors that come into play. We believe they can be broken down into three key areas – Risk, Supply and Demand, and Market Intangibles as described further below:

Risk Effect: Value is highly dependent on risk. The lower the risk associated with an acquisition candidate, the higher the value, and vice versa. And just as one company can be riskier than another, due to differences in market dynamics, reimbursement, and other economic factors, certain business segments are inherently riskier than others.

Supply and Demand: Just like any other free marketplace, M&A transaction pricing is often a function of supply and demand. When demand exceeds supply, competition for acquisition candidates drives value premiums up. Each market segment exhibits differences in balance between these economic realities.

Market Intangibles: With all the spreadsheet modeling that takes place it’s tempting to believe that valuation is strictly an objective, math driven exercise. But not so. Merger and acquisition activity is driven by people, with varying experiences, strategies, and assessments of market conditions. En masse, these intangibles can create positive or negative M&A “buzz” that can sometimes have a greater impact on valuation than other, more “objective” factors.

Below is an assessment of where each sector stands in terms of M&A risk, supply and demand, intangibles, and valuation (expressed in multiples of earnings before interest, taxes, depreciation and amortization – EBITDA). The arrows summarize how each factor contributes to an increase (upwards arrow), decrease (downwards arrow), or no change (sideways arrows) in value compared to last year. For Risk Effect, note that an upwards arrow reflects a positive impact on valuation as a result of a decrease in the sector’s risk profile.

Note that all references to value and multiples below reflect general trends in valuation. Accordingly, they do not reflect investment value premiums that individual strategic buyers may pay in competitive merger and acquisition situations to acquire companies that meet their unique goals and objectives.

Medicare Certified Home Health

Risk Effect. At the close of 2002 the risk profile for Medicare Certified Home Health was arguably at its lowest (most attractive) point since the mid 90s. The only lingering concerns as we entered 2003 was speculation on possible rate reductions over the near term. Well, with NAHC’s definitive study on the industry’s overall modest profitability (see Top Ten Events of 2003) and a minimum of three years of price stability granted in the Medicare Prescription Drug Bill (Top Ten Events of 2003) these doubts have been put to bed. As such, the industry’s risk profile has improved even further and now occupies the second most attractive position – just behind hospice – on the risk – value continuum.

Supply and demand. A strange mix here. With opportunities to generate profits under PPS being a relatively recent phenomenon and with favorable market conditions ahead, the best of the best have been somewhat unmotivated to go to market. As such, the bulk of transactions over the past two years have been troubled agencies. At the same time, buyers have been reticent to plunge head first back into acquisitions (see intangibles below). So supply and demand have been relatively balanced – and low. We expect this to begin to change in 2004. First, we anticipate that with 3 years of PPS profits banked away, some of the best performing agencies...
The Year in Valuation continued

will begin to test the M&A waters. Second, the investment community has clearly targeted the home health arena. This will stimulate further interest in platform and subsequent follow-up acquisitions. So in 2004, we again anticipate relatively balanced supply and demand, albeit at meaningfully higher volumes.

**Market Intangibles.** Although many sectors were hit hard by reductions in reimbursement courtesy of the Balanced Budget Act of 1997, with thousands of agency closings and a difficult transition from the Interim Payment System to the Prospective Payment System (PPS), the collective psyche of the home health sector, by far, took the greatest hit. So even as PPS has turned the industry into an extraordinarily viable, profit generating investment option, many of the major players have been either (a) content to sit on the M&A sidelines or (b) slow to offer valuation multiples consistent with what these vastly improved market dynamics would suggest. So in terms of transaction volume, the sector has been “under represented” and unable to build any critical market momentum. The good news? With so many things going right at the same time – stable reimbursement, soaring public valuations, private equity interest – we expect that confidence in the industry – an over-riding M&A intangible – will finally, be restored.

**Valuation Range:** 4.0 to 4.5 x EBITDA with the top end of the range potentially approaching 5.0 towards the end of the year.

**Private Pay (Non State funded) Home Health**

**Risk Effect:** Absent the reliance on government funding, from a reimbursement perspective private pay home health has long been considered relatively risk free. That was until 2003 when patients or their families began to cut back on utilization in the wake of a sustained, down economy. As such, the sector’s risk profile now includes the “ambient” risk of the economy.

**Supply and Demand:** Demand for private pay agencies “should” have rocketed when Medicare was extremely unstable post BBA 1997. It didn’t, as buyers retreated to see how, and if, the Medicare market would recover. Now that it is clear that the industry will survive, given the sheer size of the Medicare market it garners the most M&A attention. Furthermore, given the comparatively small size of private duty agencies vs. their Medicare or Medicaid home health counterparts, consolidation strategies to create significant size and market penetration have met with limited success. Taken together then, demand is somewhat down.

**Market Intangibles:** With a relatively limited number of transactions compared to the Medicare certified sector, the M&A market has, and continues to use Medicare valuation as a reference point for private pay. So an increase in valuation on the Medicare side (see above) favorably impacts this sector.

**Valuation Range:** 3.0 to 4.0 x EBITDA; slightly up riding on the gains in certified home health.

**State Funded, Medicaid and Medicaid Waiver Home Health**

**Risk Effect:** With many states in fiscal crisis turning to Medicaid and other state funded health care programs to find dollars to balance their budgets, reimbursement risk was extremely high as we entered 2003. It remains so today, and is arguably higher as the federal budget (which supplements many state programs) projects record deficits and more states contemplate rate reductions and/or restrictions in eligibility.

**Supply and Demand:** We entered 2003 with modest acquisition demand from multiple
home health sectors. At the present time however, activity is generally limited to those players currently in the state funded market with extremely efficient operating models capable of sustaining profits amidst declining margins. As a result, already limited demand has softened further.

**Intangibles:** Even though individual States and/or individual State programs remain well funded and profitable and the demand and need for these services will not go away and “must” be funded, the gloom that extends over the entire industry seems to build every day.

**Valuation Range:** 2.0 to 3.0 x EBITDA; down from last year.

### Hospice

**Risk Effect:** We entered the year with Hospice being about as “risk-free” as health care can get in terms of utilization and reimbursement. It remains so today as the Centers for Medicare and Medicaid Services (CMS) continues to urge the physician community to consider the benefits of hospice for (a) more patients and (b) earlier in the plan of care. As such, Hospice continues to possess the most favorable risk profile of all the health care sectors we track. No change, however, which, in this situation, is about as good as it gets.

**Supply and Demand:** Hospice is unique in that supply and demand factors vary substantially based upon size. Given the extraordinary run-up in stock price for both Odyssey Healthcare and VistaCare, many private equity firms are seeking large, platform type acquisition candidates with $20 million or more in revenues to establish a significant presence in the market and support future growth. With a limited number of private, for-profit hospice companies in this size range, demand clearly exceeds supply. As for the smaller firms with average daily census of about 50 patients or $1.5M per year (which dominate the industry), demand remains, as it did last year, somewhat limited to a relatively few number of established large players. This will change once recent and future platform buyers execute follow-up acquisition strategies.

**Intangibles:** With a virtual seal of approval from CMS, expectations for sustained profitability, extraordinary public valuations, no history of high profile bankruptcies, and nary a scandal in sight, hospice has extraordinary M&A appeal.

**Valuation Range:** 3.5 to 6.0 x EBITDA, moving towards the higher range based upon size. Up from last year.

### Home Medical Equipment

**Risk Effect:** The passage of the Medicare Prescription Drug Bill affects the HME industry more than any other sector we cover. The most immediate and potentially most significant provisions impact nebulizer medications, particularly in 2005 when reimbursement shifts to Average Sale Price (ASP) plus 6%. Two key issues: (1) From an implementation perspective, there is no system in place to efficiently and accurately collect and audit ASP data. (2) If taken literally, under this methodology there will clearly not be enough margin to cover procurement, distribution, clinical oversight, billing and collections, and still leave room for profit. Given the above, many industry insiders speculate that if the program is initiated, it will likely be delayed. Additionally, many speculate that if initiated, the formula will directly or indirectly include a service component that allows for reasonable profits. That’s the good news. The bad news is that the ultimate outcome is unknown, and that drives up risk. Other unknowns: potential reductions in reimbursement for oxygen in 2005 based on median Federal Employee Health Benefit Plan
Other than ASP initiatives for nebulizer medications which took the industry by surprise, the bill is a conglomeration of much of what it was hoping to avoid, but anticipated to some degree in the near future.

Rather than abandon acquisition strategies in the face of reimbursement change, HME buyers have tended to modify the consolidation strategies themselves.

With State funded programs under duress and increased scrutiny regarding AWP, we sense some concerns regarding pricing pressures.

In light of the Prescription Drug Bill, we expect that in select situations, HME buyers, many of whom already provide home infusion therapy, will consider IV deals to supplement their acquisition strategies.

The Year in Valuation continued

(FEHB) prices and the impact of competitive bidding scheduled to begin in 2007. It is crucial to note however that other than the ASP initiatives for nebulizer medications which took the industry by surprise, the bill is a conglomeration of much of what it was hoping to avoid, but anticipated to some degree in the near future. As such, with much of this risk already in place as we entered the year, the recent up tick is mostly attendant to neb meds.

Supply and Demand: At nearly 20 years and still going strong, the HME sector enjoys the longest, virtually uninterrupted string of sustained merger and acquisition activity (see Intangibles below) – a consolidation pattern that continues to outpace the startup, development, and maturation of potential acquisition targets. With expectations that some companies may turn to acquisitions to replace lost revenues and profitability as a result of the Prescription Drug Bill (see above), we anticipate that demand will continue to exceed supply.

Intangibles: As apprehensive as buyers have been in the Medicare Certified Home Health arena, HME buyers have traditionally exhibited extraordinary confidence. A confidence born out of successfully managing a near never-ending string of reimbursement cuts from Rent-Purchase, to Oxygen Guidelines, to OBRA 90, to the Six Point Plan, and to BBA 1997 and 30% oxygen cuts. As such, rather than abandon acquisition strategies (that represent a core growth strategy) in the face of reimbursement change, buyers in this sector have tended to modify the consolidation strategies themselves, altering product, payer, and/or geographic preferences. This pervasive mind-set continues to buoy M&A opportunities.

Valuation Range: Unchanged. 4.0 – 6.0 x EBITDA, though for providers with substantial nebulizer revenues, depending on the latest conventional wisdom regarding reimbursement, EBITDA may be adjusted downward.

Specialty Pharmacy and Infusion Therapy

Risk Effect: With substantial reimbursement coming from non-governmental private insurance and private pay sources, Specialty Pharmacy and IV is somewhat less exposed to reimbursement risk than many of the other sectors we cover. With state governments under financial duress however, those providers that offer therapies largely reimbursed through Medicaid and other state funded programs may have challenges ahead. And with increased scrutiny regarding AWP (Average Wholesale Price) based pricing, on a case by case, therapy by therapy, payer by payer basis, we sense some concerns regarding pricing pressures. With respect to the Medicare Prescription Drug Bill, while it may favorably increase access to, and hence utilization of, certain specialty pharmacy and infusion products, details at this point are insufficient to evaluate its impact on the sector’s risk profile.

Supply and Demand: There are substantial differences in this area between home infusion therapy and specialty pharmacy, so we will address them separately.

Home IV: While compared to many home care sectors where there are literally thousands of providers, the supply of attractive IV therapy companies is relatively small. Unfortunately, as limited as the supply may be, with only 7 transactions identified in 2003 (after only 6 deals in 2002; see The Year in Acquisition Activity), acquisition demand remains soft. This may be due to the very fact that with limited numbers of acquisition targets, opportunities to create substantial size and market penetration are similarly limited. On a positive note, while not yet reflected in deal volume, we have noted an increase in queries from private equity groups regarding home IV. Furthermore, in light of the Prescription Drug Bill, we expect that in select situa-
tions, home medical equipment buyers, many of whom already provide some home infusion therapy, will once again consider IV deals to supplement their acquisition strategies.

**Specialty Rx:** Compared to the relatively small number of IV therapy providers described above, the number of focused, specialty pharmacy providers is even less—much less. But that is where the similarity ends. Because (a) specialty pharmacy providers tend to be relatively large ($10-20M) and (b) extraordinary economies of scale can be gained by leveraging their sophisticated customer service, distribution, and billing infrastructures, much like we observed at the end of last year, the demand for specialty pharmacy providers with similar or complimentary product lines is extremely high.

**Intangibles:** With little activity to speak of in the IV segment, while there are always intangibles at work in individual transactions, there is little global sentiment—positive or negative—impacting the sector. As for Specialty Pharmacy, after an 18 month run-up of investor attention on this sector, while enthusiasm for the sector continues to run deep, we sense that it is beginning to level off.

**Valuation Range:** Unchanged. IV: 4.0 x EBITDA. Specialty Rx: 5.0 - 7.0 x EBITDA.

**Health Care Staffing**

**Risk Effect:** It has long been recognized that staffing is extremely cyclical. Staffing expenditures—a.k.a. revenues for staffing agencies—tend to grow until economic pressures force customers—a.k.a. hospitals, nursing homes, and other providers—to seek reductions in utilization, price concessions, and/or other solutions. After a periodic reduction in expense the realities of demand kick in once again and an upward cycle begins anew. After posting increasing growth rates during 2001, the industry found itself on the downward slope of the cycle, as growth rates declined substantially in 2002 and even went into the red in 2003. But we believe the industry is nearing the bottom of the cycle and is poised for a substantial rebound in 2004 as the demand realities suggested above come into play. Bolstering this opinion is the recent report issued by the Institute of Medicine entitled "Keeping Patients Safe: Transforming the Work Environment of Nurses", which should further stimulate demand (see Top 10 events of 2003). So as we close 2003, the risk profile has improved.

**Supply and Demand:** While many acquirers turned their strategic attention inward to stem declines in revenues in 2003, activity seemed to pick up towards the second half of the year. If the fortunes of the industry begin to turn upwards, as we anticipate, acquisition demand will improve as well.

**Intangibles:** From 2001 through the first half of 2002, on the heels of three successful IPOs and an extraordinary run-up in stock price for the firms that make up The Braff Group Health Care Staffing Index, M&A market intangibles soared, bolstering market multiples. And as fast as they rose, they fell over the past year and a half. As we close 2003 and head into 2004, for the reasons discussed above, we sense that some of the enthusiasm for the sector will return, though not likely to the heights of 2001-2002.

**Valuation Range:** “Soft” 5.0 x EBITDA climbing to a “solid” 5.0 through 2004.
The Return on Research

The Braff Group commits substantial resources to merger and acquisition market research and analysis, which has given us extraordinary insights into an ever changing merger and acquisition environment. Specifically, the research has enabled us to identify...

- changes in valuation benchmarks
- critical shifts in consolidation strategies
- sector specific break points for size premiums
- trends in valuation that impact market timing

- public market factors that impact buyer activity
- relationships between the economy and health care M&A
- relationships between reimbursement and M&A activity
- new venture capital backed consolidators
- market driven methods to value new growth opportunities

It’s all part of what we refer to as intelligent dealmaking. The edge that generates results.

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| **Physicians Resource Medical Equipment Inc.** | **Health Care Diagnostics, Inc.** | **Landry’s** | **Elder Care Solutions** |
| Pharmacists | | | |
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| **HOME CARE RESPIRATORY** | **AccuCare Medical** | **Private Home Health Agency** | **DependiCare** |
| | | | |
| August 2003 | June 2003 | March 2003 | March 2003 |
| the braff group represented the firm | the braff group represented the firm | the braff group represented the firm | the braff group represented the firm |

| **MedCare Pharmacy** | **PROCARE Medical** | **Advanced Health Services** | **February 2003** |
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| February 2003 | February 2003 | January 2003 |
| the braff group represented the firm | the braff group represented the firm | the braff group represented the firm |