

perspectives

First Quarter 2004

A health care merger & acquisition quarterly

M&A Quarterly Update

**FIRST QUARTER DEAL VOLUME DOWN SLIGHTLY VS. Q4 2003
HEALTH CARE STAFFING TRANSACTIONS SURGE**

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Next Month's
Infusion Therapy and
Specialty Pharmacy

Based on preliminary data gathered by The Braff Group, there were 43 Home Health, Home Medical Equipment, Infusion, and Health Care Staffing transactions announced or completed during the first quarter of 2004 — down slightly from that during the previous quarter. The staffing sector, however, surged dramatically with a record 11 deals this quarter — eclipsing the previous record of 10 deals in Q4 2002 — and up from 4 transactions in Q4 2003.

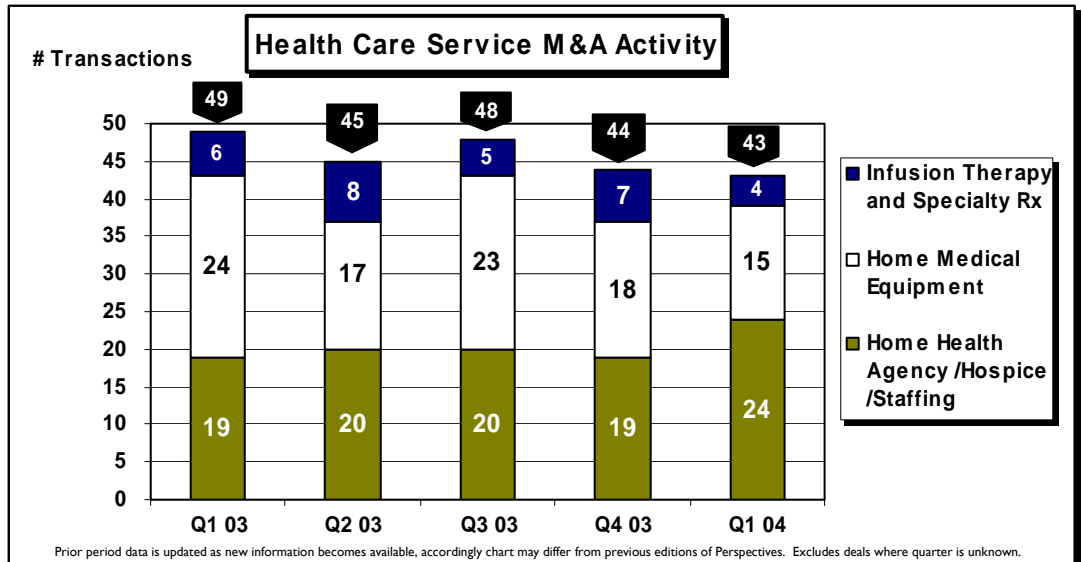
Two deals of particular note during the period: Crescent Capital Investment emerged as the winning bidder to acquire Tender Loving Care out of bankruptcy (see page 2 for further details and analysis).

Additionally, in a deal valued at \$150 million, Curative Health Services (**CURE:NASDAQ**) announced its intention to acquire Critical Care Systems, a \$107 million provider of specialty pharmaceuticals, total parenteral nutrition, and anti-infective therapies. According to a Curative press release, among other strategic benefits, the deal “create[s] an organization with a network of 38 pharmacies in 23 states through which to drive growth in the related core disease states that require a local clinical presence”. In so doing, Curative expands its distribution and service capabilities substantially beyond mail order, the key distribution channel for many Specialty Rx providers.



Perspectives is a quarterly health care merger and acquisition journal published by The Braff Group.

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Industry Spotlight: Medicare Certified Home Health Care

In our recent Medicare Home Health Care Edition of ***Merger and Acquisition Market Watch***, we indicated that 2004 may be a break-out year for merger and acquisition activity in this sector for the following reasons:

- The recently passed Prescription Drug Bill is extremely favorable to Medicare Certified Home Health Agencies (CHHAs), with provisions creating price stability through 2006.
- Given increased market stability and expectations for sustained growth and profitability, Private Equity buyers are increasingly targeting the home health sector, increasing demand, which, in turn, will stimulate both activity and value.
- With steady increases in stock prices, publicly traded home health providers will have more “arbitrage” room to price acquisitions.
- With three years of PPS profits banked away, more CHHAs will likely test the M&A market in 2004.
- Access to debt appears to be improving, increasing buyers’ capacity to finance deals.

(Editors note: For a copy of Merger & Acquisition Market Watch: Medicare Certified Home Health Agencies, contact The Braff Group.)

In the past quarter there have been two specific developments that echo these thoughts, and further support expectations for a resurgence in certified home health care M&A activity:

I. A Private Equity Group wins the bidding for Tender Loving Care.

On April 2, 2004, a bid to acquire Tender Loving Care Health Care Services (TLC) — a \$245 million predominately Medicare provider — submitted by Crescent Capital Investments, a private equity group based in Atlanta, was approved by the US Bankruptcy Court. According to documents filed with the Securities Exchange Commission, the bid was for \$148.5 million in cash plus the assumption of \$50 million in liabilities.

The transaction is notable in several respects:

- To the best of our knowledge, the deal is the largest home health transaction announced since — ironically — TLC was initially acquired by Med Diversified in 2002.
- Crescent wasn’t the only private equity group taking a run at TLC. At least one of the other bidders was an affiliate of Charterhouse Group International, another private equity group whose current holdings include MP TotalCare, a national provider of respiratory medications and other specialty supplies, and Cross Country Health Care (CCRN:NASDAQ), a publicly traded health care staffing company.
- Crescent has already indicated that it will consider acquisitions to complement its growth strategy.

“2004 may be a break-out year for merger and acquisition activity for Medicare Certified Home Health agencies ”

Taken together — the size of the deal, the Medicare focus, the private equity play, and plans for future acquisitions — the deal substantially (and favorably) raises the profile of Medicare certified home health in the investment community.

2. Amedisys, the most active publicly traded acquirer of Medicare Certified Home Health Agencies, as well as the publicly traded firm deriving the greatest percentage of its revenues from Medicare certified services, has seen its Market Value of Invested Capital and Valuation Metrics soar.

As illustrated in Figure 1¹, with at least 5 transactions completed over the past three quarters contributing to quarterly revenue growth of 3.4%, 15.1%, and 13.6% respectively, the market value of invested capital² (MVIC) for Amedisys (AMED:NASDAQ) has surged an extraordinary 355%. This is even more impressive when compared to the other publicly traded firms in its sector as illustrated in Figure 2¹.

As the MVIC for Amedisys has risen, so has its relative valuation benchmarks — in dramatic fashion. As illustrated in Figure 1, at the same time last year, Amedisys was valued at 5.66 times EBITDA. Four quarters and 5 acquisitions later, its valuation has spiked to 16.04 x EBITDA — an increase of 183%.

Another observation: At an EBITDA valuation of 16X, Amedisys is currently being valued at Hospice

like levels (see page 4, Public Company Performance and Valuation Benchmarks), the sector that has attracted, by far, the most attention from the investment community over the past two years.

Clearly, Amedisys' recent performance has not been lost on the other publicly traded home health providers. Several have already announced their intentions to aggressively increase their Medicare mix — which (continued, page 4)

“Amedisys is currently being valued at Hospice like levels”

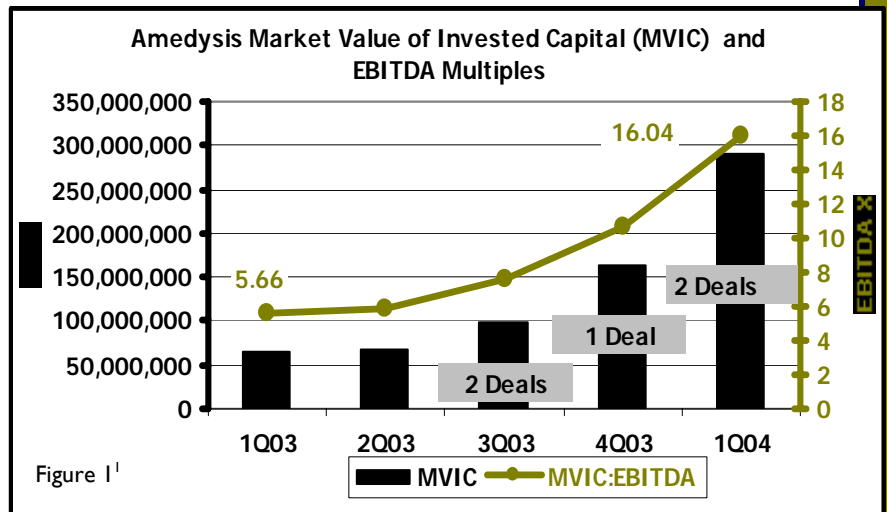


Figure 1¹

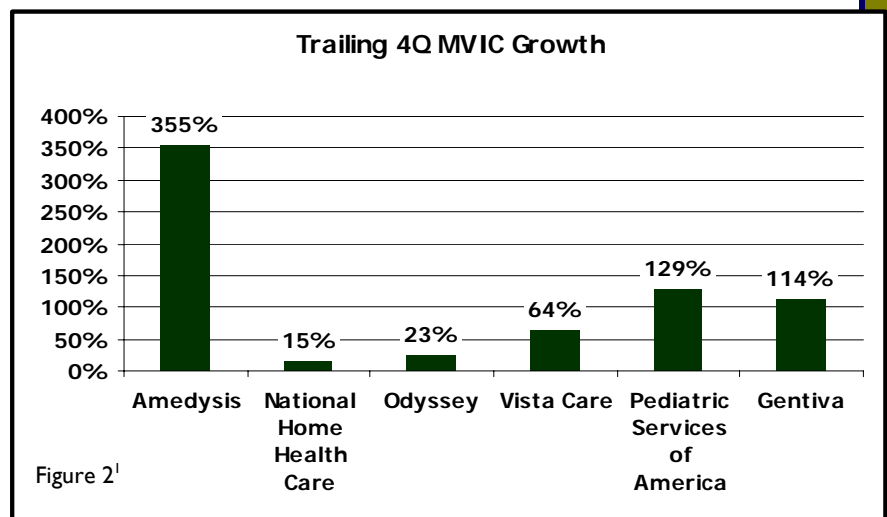


Figure 2¹

¹Sources: Public Filings; The Braff Group

²Market Value of Invested Capital equals (total shares outstanding x stock price less cash plus non-working capital interest bearing debt

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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.

The Braff Group Index

	Broad Market Average	HME	HHA & Hospice	Specialty RX & IV	Health Care Staffing	Hospitals	Long Term Care	eHealth	TBG Composite	Spread
Q2 03	64.9	261.8	280.3	141.1	107.9	156.3	194.9	42.8	164.5	99.6
Q3 03	67.5	343.1	347.5	146.9	126.4	186.6	267.2	52.9	203.2	135.6
Q4 03	75.7	263.6	393.4	153.4	135.7	211.0	348.3	52.6	219.5	143.7
Q1 04	75.7	279.5	395.5	166.8	145.3	194.7	331.3	60.9	221.5	145.8
Change	0.0%	6.0%	0.5%	8.8%	7.1%	-7.7%	-4.9%	15.8%	0.9%	1.5%

After a tough 4th quarter during which HME fell 23% in response to the Prescription Drug Bill, the sector rebounded during the 1st quarter of 2004 with a gain of 6.0%. Also of note, Health Care Staffing grew for the third consecutive quarter, rising 7.1%. Additionally, the much beleaguered eHealth Sector surged 15.8% as technology in general returns to favor and leading eHealth providers continue to mature. Offset by declines in Hospitals and Long Term Care, the Composite Index gained a modest .9%.

The Braff Group Index measures the stock performance of 40 companies in seven key health care service sectors. The Composite includes all the companies in the index. The spread represents the difference between the Health Care Composite and the Broad Market Averages. All stocks were indexed to 100 on February 29, 2000.

Q1 Public Company Performance and Valuation Benchmarks

Median Measures	HME	HHA	Hospice	Staffing	Specialty RX & IV	Composite
EBITA Margin	11.6%	5.2%	15.2%	3.6%	4.1%	5.2%
EBITDA Margin	26.8%	6.7%	15.7%	5.0%	5.6%	6.7%
MVIC : Revenues¹	1.47	0.46	2.21	0.63	0.59	0.63
MVIC : EBITA¹	10.03	13.41	15.57	16.13	10.78	13.41
MVIC : EBITDA¹	5.97	7.34	14.73	11.84	10.24	10.24

Public Company Performance and Valuation Benchmarks are based on 23 publicly traded companies. MVIC equals Market Value of Invested Capital (total shares outstanding x stock price less cash plus non-working capital interest bearing debt). ¹Figures reflect valuation ratios.

(continued from page 3) may include acquisitions.

The big question is whether or not Gentiva (**GTIV:NASDAQ**), the industry leader in terms of size, decides to enter the fray. Over the recent past, the firm has focused inward, divesting unwanted operations, creating unique, branded, marketing programs, investing in technology, creating a strong infrastructure — and generating cash — lots of it. With \$100 million sitting on its balance sheet — more than all of the other publicly traded home health providers combined — Gentiva certainly has the wherewithal to adopt an aggressive acquisition strategy.

More importantly though, a move by Gentiva would likely signal to the market that the Medicare home health M&A market is truly back.

All things considered, from a merger and acquisition perspective, there are an extraordinary number of positive factors coming together in the Medicare certified home health sector. And in an environment where activity begets activity — stimulating demand and price — the apparent gain in momentum is perhaps the most critical element in jumpstarting an M&A market that has been slow to recover since the post BBA 1997 meltdown.