

Almost Family, Inc.

NASDAQ: AFAM

Analyst: Dylan Cirrilla

Sector: Healthcare

Buy

Price Target: \$44.91

Key Statistics as of 3/15/2016

Market Price:	\$36.73
Industry:	Healthcare Services
Market Cap:	\$387.1m
52-Week Range:	\$50.48 - \$34.08
Beta:	1.2

Thesis Points:

- Aggressive M&A activity
- Geographic expansion
- Continued expansion of Medicare/Medicaid

Company Description:

Almost Family (AFAM) is a health care services company that provides senior home healthcare services. AFAM offers senior skilled nursing care management, cardiovascular disease treatment, physical rehabilitation, and speech therapy services. AFAM serves patients throughout the United States, specifically in the North and South East United States. The company provides specialty programs that are diversely targeted, such as Cardiacare, Orthopedics, Optimum Balance, B.R.E.A.T.H.E. and Urology, to name a few. The company is currently located in 14 states with 229 branches and has plans to expand operations off of the east coast. AFAM has been very active in acquisitions with their most active year being 2015. The company acquired six companies for over \$150 million, and acquiring over \$140 million in revenue. Visiting Nurse services, services that involve nurses visiting homes of patients to provide skilled care, accounts for 81.8% of revenue. Personal Care, which involves aides and day-to-day living assistance account for the remainder of the company's revenue. AFAM will be expanding a new "Innovation" segment of their business where they will be seeing growth through aggressive M&A activity, as seen in the purchase of Long Term Solutions and WILLCARE.



Thesis

Almost Family (AFAM) is an efficient company with growth potential in a rapidly growing field. Being a relatively small company with a presence across the Eastern US provides AFAM with a strong base for their business. Through aggressive M&A activity, the firm has been able to establish business in other states and begin the process of geographic expansion, as seen in Ohio or New York, for example. M&A activity has also been responsible for the growth of new product segments, such as the firm's assessment services that have been the subject of three acquisitions. This shows competent leadership and effective M&A activity which will increase AFAM's diversity of products. Geographic expansion, as a result of M&A's or otherwise, will show a similar effect. Increasing their presence across the United States will allow AFAM to improve economies of scale and explode revenue. The improvement of margins, which is strong at 6.82 for 2015, and expansion of customer base will be fueled by the continued expansion of Medicare/Medicaid throughout the United States. As the population ages and more individuals are covered under state-run health care plans, AFAM's customer base will continue to expand. AFAM's intrinsic value is projected at \$37.58 showing that it is undervalued. Current market price is \$36.73 with a 1-year target price of \$44.91; a 22.3% upside.

Industry Outlook

AFAM resides in the healthcare services industry. Healthcare, has seen considerable growth and promises to sustain or better that growth in the coming years. With the passage of the Affordable Care Act and other groundbreaking healthcare legislation, nearly all Americans are covered under some form of insurance. These forms of insurance will continue to increase in their utilization levels as the population ages. The establishment of a public health system will continue to be a staple in American politics for the foreseeable future. The popularity of presidential candidates Bernie Sanders' and Hillary Clinton's healthcare proposals seems to indicate this trend. Healthcare has also been shifting on a more macro level to a focus on the patient as opposed to fees, profits, or other fiscal focuses. This focus on the patient will see a paradigm shift from in-patient facilities such as nursing homes or hospitals, to a home-focused approach; this is AFAM's market of

choice. The macro outlook of the healthcare industry shows promising growth for AFAM and will be a stable and organic driver of revenue for years to come.

Business Model

AFAM's business model involves two main segments, with another segment to be expanded in the future. The first segment is AFAM's skilled nursing care segment. This service involves nurses and sometimes physicians traveling from one of AFAM's 229 branches to a patient's house to provide care. This care can be rehabilitative or any other kind of advanced medical care. Teams of physicians and nurses will also travel to patient's homes for specialty programs in which patients can pay for services tailored to their particular ailment, such as urology or geriatric psychology. The second segment of the AFAM business model is the Personal Care division. For services within this division, aides will travel to patients' homes and provide day-to-day services, akin to the services offered in an assisted living home. The last segment of AFAM's business is developmental and considered an Assessment division. Through M&A's, AFAM has established a business in which they analyze risks associated with certain conditions, facilities, populations, etc. and provides this information to legislators, insurance companies, and other healthcare focused stakeholders. This division will see considerable expansion in the near-future as M&A activity continues to increase.

M&A Activity

AFAM has a history of aggressive M&A activity. CEO Steve Guenther stated that the company is always especially aggressive but slightly less aggressive when macro factors appear to be against this form of expansion. Almost Family consists of a group of ten companies which have been acquired or merged with to expand geographic reach or expand product offerings. AFAM's most acquisitive year was 2015 with six acquisitions totaling over \$150 million. The main purpose of these acquisitions were to expand into Ohio and New York and expand the new assessment business segment that AFAM has established. AFAM's CEO, Guenther, has hinted that M&A activity will continue in the future as the company has seen success in their previous acquisitions.

Product Differentiation

AFAM offers a holistic approach to homecare and to the patients that pay for AFAM's services. For day-to-day or simple rehabilitative needs, AFAM can offer top-notch services. If conditions progress or new ones form, AFAM can provide skilled nursing services with specialized programs. In the background, AFAM conducts lobbying and advocacy efforts. This shows AFAM's knowledge and passion for the industry. These are two intangible factors that ensure longevity of AFAM and ensure the improvement of their products and services. AFAM can offer patients the prospect of additional services for the future, as well. As an aggressive acquirer and proven adaptor to change, AFAM provides patients with an optimistic look towards the future in terms of products. The company has proven itself as an innovator and adaptor and will continue to do so as customer needs change.

Financials

AFAM has performed positively in recent years with attractive trends forecasted for the future. Revenue growth since 2007 has been 303% or 33.67% per annum on average. This revenue growth has outpaced operating cost growth by a percent per year. This high operating expense growth is likely attributable to synergistic adjustments as a result of M&A activity and is not a result of inefficient operations within the company. AFAM is also superior when compared to its competitors. AFAM's ROIC with the exclusion of goodwill is 22.8% compared to 15% of the industry's competitors. AFAM's cost of equity and cost of debt are also lower than competitors' by 2.1% and 5.1% respectively. This indicates lower risk associated with AFAM, resulting in a lower overall WACC. The higher than industry-average WACC can be compared to the higher than industry-average ROIC to show value creation into the future above the industry average. Individual margins of AFAM's product lines are upward trending. AFAM's largest product segment, Visiting Nurses which provides in-home advanced care, has a margin of 12.1%, up 1% from the previous year. AFAM's Personal Care segment operates at about a 4% margin routinely, and is also in development. The "Healthcare Innovations" segment has been operating at 0 or slightly negative operating income since 2013 but will turn a positive income in the coming years as the segment expands. AFAM's Current market price is

\$36.73 with a 1-year target price of \$44.91; a 22.3% upside.

Conclusion

Almost Family (AFAM) is a best-in-class homecare provider with aggressive tendencies in a market that shows great growth potential. The previous M&A success has proven AFAM management can effectively merge and acquire firms to expand product segments or expand geographic presence. CEO Steve Guenther has hinted that M&A activity will be present in the future and will help the company grow from its strong east coast presence. The expansion into other geographic locations will bolster AFAM's customer base and promise revenue growth. This organic growth will be multiplied by the country's continued efforts to expand Medicare and Medicaid. As more Americans age and are covered by a form of insurance, they will require treatment. This coupled with the paradigm shift to a more home-centric treatment option will provide the macro setting for AFAM to create value.

Almost Family Inc. (AFAM)

CENTER FOR GLOBAL FINANCIAL STUDIES

BULLISH

Analysis by Dylan Cirrilla
3/15/2016

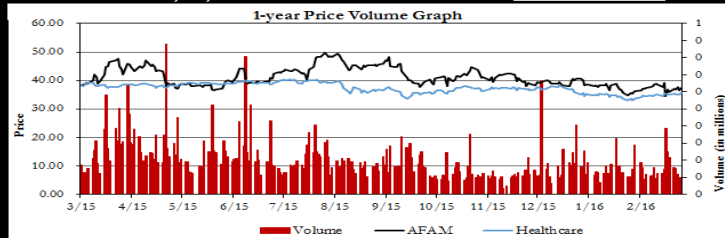
Current Price:
Divident Yield:

\$36.73
0.1%

Intrinsic Value
Target Price

\$37.58
\$44.91

Target 1 year Return: 22.36%
Probability of Price Increase: 75.1%

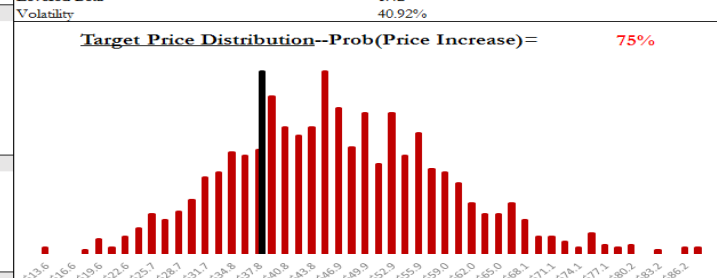


Description	Almost Family, Inc., together with its subsidiaries, provides home health services.
General Information	
Sector	Healthcare
Industry	Healthcare Providers and Services
Last Guidance	November 3, 2015
Next earnings date	NM
Estimated Country Risk Premium	6.00%
Effective Tax rate	40%
Effective Operating Tax rate	37%

Market Data	
Market Capitalization	\$383.87
Daily volume (mil)	0.01
Shares outstanding (mil)	10.30
Diluted shares outstanding (mil)	9.75
% shares held by institutions	60%
% shares held by investments Managers	54%
% shares held by hedge funds	16%
% shares held by insiders	13.21%
Short interest	3.23%
Days to cover short interest	4.12
52 week high	\$50.48
52-week low	\$33.69
Levered Beta	1.42
Volatility	40.92%

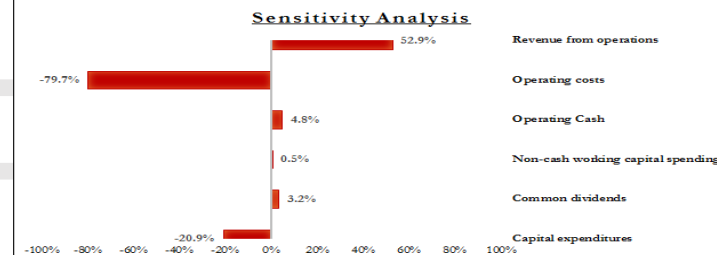
Quarter ending	Past Earning Surprises
12/31/2014	Revenue 0.33%
4/3/2015	Revenue 2.49%
7/3/2015	Revenue -0.79%
10/2/2015	Revenue -1.36%
1/1/2016	Revenue -2.62%
Mean	Revenue -0.39%
Standard error	Revenue 0.9%

EBITDA	Peers
-80.95%	LHC Group, Inc.
0.86%	Amedisys Inc.
-0.69%	BioScrip, Inc.
-1.94%	Addus HomeCare Corporation
-18.15%	Capital Senior Living Corp.
-20.17%	Diversicare Healthcare Services Inc.
15.6%	Team Health Holdings, Inc.
	USMD Holdings, Inc.



Management	Position
Yarmuth, William	Chairman and Chief Executive
Guenther, C.	President and Principal Fina
Schwartz, Daniel	Chief Operating Officer and
Lyles, Patrick	Senior Vice President of Adm
Kaushal, Rajneesh	Chief Clinical Officer and S
Reibel, Jeffrey	Chief Accounting Officer and
Profitability	AFAM (LTM)
ROIC	11.3%
NOPAT Margin	9%
Revenue/Invested Capital	1.30
ROE	14.3%
Adjusted net margin	8%
Revenue/Adjusted Book Value	1.71
Invested Funds	AFAM (LTM)
Total Cash/Total Capital	1.3%
Estimated Operating Cash/Total Capital	1.3%
Non-cash working Capital/Total Capital	8.4%
Invested Capital/Total Capital	100.5%
Capital Structure	AFAM (LTM)
Total Debt/Common Equity (LTM)	0.48
Cost of Existing Debt	3.27%
Estimated Cost of new Borrowing	1.38%
CGFS Risk Rating	3.27%
Unlevered Beta (LTM)	2.38%
WACC	3.27%

Total compensations growth	Total return to shareholders
2.96% per annum over 5y	-4.06% per annum over 5y
5.38% per annum over 5y	-4.06% per annum over 5y
19.11% per annum over 1y	-10.45% per annum over 1y
3.42% per annum over 5y	-4.06% per annum over 5y
18.56% per annum over 2y	19.54% per annum over 2y
N/M	N/M
AFAM (5 years historical average)	Industry (LTM)
14.11%	10.76%
10.81%	5.3%
1.31	2.02
14.71%	15.97%
10.63%	4.7%
1.38	3.37
AFAM (5 years historical average)	Industry (LTM)
4.4%	16%
3.7%	N/A
9.0%	2%
99.8%	79%
AFAM (5 years historical average)	Industry (LTM)
0.25	0.64
3.12%	4.33%
1.38%	4.33%
AAA	BBB
1.22	0.72
9.50%	6.53%



Porter's 5 forces (scores are out of 100)

Period	Revenue growth
Base Year	7.3%
1/1/2017	16.2%
1/1/2018	14.9%
1/1/2019	13.6%
1/1/2020	12.2%
1/1/2021	10.9%
1/1/2022	9.6%
1/1/2023	8.3%
1/1/2024	7.0%
1/1/2025	5.6%
1/1/2026	4.3%
Continuing Period	3.0%

Valuation	ROIC/WACC
NOPAT margin	1.22
	1.03
	1.06
	1.05
	1.05
	1.04
	1.03
	1.01
	0.99
	0.98
	0.98

Period	Invested Capital
Base Year	\$227.10
1/1/2017	\$283.17
1/1/2018	\$303.75
1/1/2019	\$399.29
1/1/2020	\$409.12
1/1/2021	\$560.69
1/1/2022	\$630.74
1/1/2023	\$726.69
1/1/2024	\$826.52
1/1/2025	\$930.37
1/1/2026	\$1,040.61
Continuing Period	

Net Claims	Price per share
\$189.91	\$37.15
\$187.36	\$44.39
\$202.69	\$52.28
\$215.63	\$60.80
\$224.62	\$70.03
\$233.61	\$79.86
\$239.09	\$90.63
\$248.93	\$101.47
\$258.23	\$112.84
\$224.47	\$124.69
\$174.03	\$136.62

