AMEDISYS
Company Report

October 9, 2010

Recommend: BUY
Current Price: $25.61
52-Week High: $64.28
52-Week Low: $22.82

Target Price: $44.14
Target Range: $38.99 - $49.28
Target Window: 5 Years

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Please see the last page for an important disclaimer.

Prepared in respect of course MGT 948 – Securities Analysis & Valuation

Yale School of Management

Initiating coverage with a BUY recommendation for Amedisys

- NPV of DOJ penalty to be $302MM to $603MM and not appropriately priced-in by market
- Restructuring a smart move in light of regulation, but company will maintain high single-digit growth organically
- Target post-litigation value of $44.14/share (fully diluted)

Key Insights

Our analysis shows that even given reasonable assumptions about organic volume growth and margins (which are below management projections and the street), the intrinsic ability of Amedisys to grow unit volume on its existing base is still strong, though certainly growth will moderate. The company will continue to take share, and management's claim to greater operating efficiency is credible.

Moreover, applying historical data on Medicare fraud settlements, including the possibility of decertification, we find that the current price implication of the new regulatory action against the company and other industry players is consistent with assuming a record-setting penalty for this type of infraction. We do not believe this assumption is reasonable because it would be inconsistent with the rationale and public policy goals of prior regulatory action.

Between the Lines

Amedisys has reached a point in its corporate development where double-digit growth is no longer sustainable. Price/asset ratios for its acquisitions have been on the rise, and the company implicitly acknowledges that it is no longer finding NPV positive startup locations.[1] This story is known by the street.[2]

In terms of the regulatory action, Amedisys experienced claims of billing malpractice before in 1998 in an action that culminated with the termination of several executives at the company's alternate site infusion division (an operation discontinued after changes to Medicare reimbursement rates made this service

[1] Amedisys, Inc. 8-K filing recorded September 22, 2010.
[2] *cf.* Henderson, Arthur I., "Agency Consolidation a Good Strategic Move but not Enough to Move the Stock NT," Jeffries & Company, Inc. research note, Nashville: Jeffries, September 23, 2010; also Ransom, John W., Jansen, Nicholas, and Chris Weems, "AMED: Perspectives on DoJ Civil Investigative Division (CID) Request," Raymond James research note, St. Petersburg (FL), September 29, 2010.

undesirable for AMED).[3] The incentives to commit Medicare fraud are high for this industry, and although we make no assertion (and, indeed have no evidence to comment on) whether such actions are or were condoned by Amedisys management, we do note that the pace of acquisition at Amedisys between 2004 and 2009, combined with the difficulty in identifying the particular form of billing fraud of which the company is accused in the due diligence process, raise the probability that Amedisys may have acquired a subsidiary whose actions may now leave the company liable in a regulatory suit.

Business Overview

Specialized play in home healthcare

Amedisys is one of the leading providers of Home Healthcare services in the US. Amedisys is based in Louisiana and has 529 Medicare-certified home health agencies and 72 hospice agencies in 40 states across the US and its territories. Amedisys derives the majority of its revenues from home healthcare services (92%) and a minority from hospice services (8%). The firm has 17.6 thousand employees with a forecasted 9.2 million visits in 2010[4].

Home healthcare target patients who are recovering from surgery, those with chronic diseases, disabilities or those requiring assistance with daily activities. Hospice services target those with a terminal illness, requiring palliative care.

Amedisys has stated ambitions to evolve from a home healthcare company to a post-acute chronic care company in order to diversify its revenues and become a more holistic provider of at-home care. Additionally Amedisys engages in active care management, disease management, health coaching among other patient programs. Amedisys distinguishes itself by dedicating a focus to care management and the technology platforms required to maintain care management programs.

Competition from local and national providers will challenge economic rents

The vast majority of Home Healthcare providers are small, local organizations; frequently, these organizations have charitable or religious ties. Barriers to entry are low but for instances where certificates of need ("CON") or permits of approval ("POA") are required by state law; as of [2009] only 17 U.S. states require CON and/or POA certification.[5] The industry is highly fragmented with over 10,000 providers in 2009, the majority of which are small, regional or local providers of home health services.

Although there are few advantages to scale in a business that is still very personnel dependent, we believe that Amedisys has the centralized services and monitoring allows it to focus on patient outcomes and sufficiently differentiate it against local competitors. Having centralized healthcare information and outcomes data will become more and more important as healthcare reform focuses on both cost control and quality improvement.

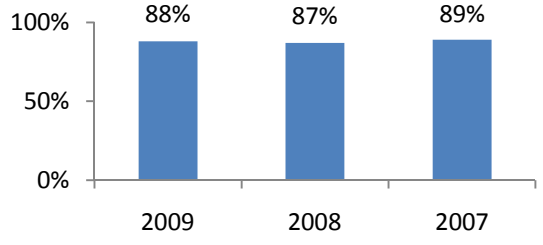
Medicare is a significant payer for the industry, and even more so for Amedisys

Amedisys derives 88% of its revenues from Medicare, a figure that has been stable over the past few years. Although Amedisys has stated a strategy to diversify its revenues from Medicare by offering post-acute chronic care services, we believe that this change in mix of revenue will be gradual at best and

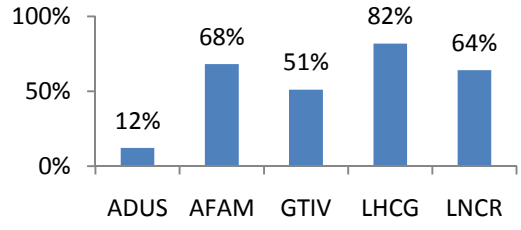
[3] Amedisys, Inc. 1999 10-K filed September 01, 2000 (amended), p. 15 (re: employee terminations); Amedisys, Inc. 2000 10-K filed March 19, 2001, p. 3 (re: restructuring)
[4] As of June 30, 2010; 10Q SEC filing
[5] Amedisys, Inc. 2009 10-K filed February 23, 2010

Medicare will remain the dominant payer for Amedisys. As a result we believe that Amedisys will not be able to diversify away from the impact of healthcare legislation on Medicare.

% of Amedisys Revenues from Medicare[6]



% of Revenues from Medicare in 2009[7]



Baseline Growth

In a company where Medicare reimbursements account for 88% of revenues, it is important to consider the long-term trends in Medicare reimbursement rates.

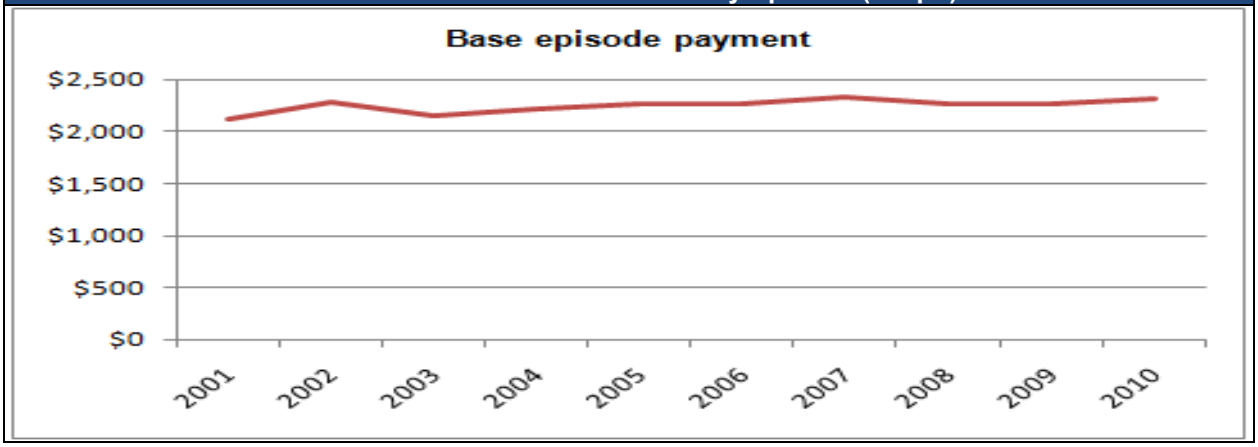
Medicare Reimbursement Rates by Episode (Table)

Base Episode Payment

Period	*Base episode payment*
Beginning October 1, 2000 through March 31, 2001	$ 2,115
April 1, 2001 through September 30, 2001	$ 2,264
October 1, 2001 through September 30, 2002	$ 2,274
October 1, 2002 through September 30, 2003	$ 2,159
October 1, 2003 through March 31, 2004	$ 2,231
April 1, 2004 through December 31, 2004	$ 2,213
January 1, 2005 through December 31, 2005	$ 2,264
January 1, 2005 through December 31, 2006	$ 2,264
January 1, 2007 through December 31, 2007	$ 2,339
January 1, 2008 through December 31, 2008	$ 2,270
January 1, 2009 through December 31, 2009	$ 2,272
January 1, 2010 through December 31, 2010	$ 2,313
CAGR (October 2000 – December 2010)	1.00%

Source: Amedisys, Inc. 10-K filings

Medicare Reimbursement Rates by Episode (Graph)



Although historic Medicare reimbursement rates grew at an annualized 1% from 2001, we believe that this trend will be interrupted by healthcare reform.

Amedisys will suffer Medicare cuts, but may have a marginal uplift in volume due to health reform

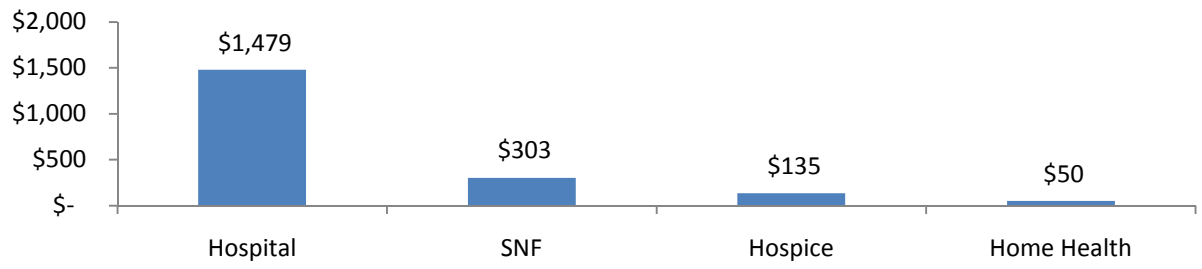
Healthcare reform will have a transformative effect on many aspects of healthcare including the home healthcare industry. Medicare legislation predicted a market basket adjustment to the home healthcare

[6] Amedisys, Inc. 2009 10-K filed February 23, 2010
[7] Capital IQ

reimbursement rate of - 1% in 2011 through 2013; however, CMS has announced negative adjustments to home healthcare rates by 4-5% in 2011 which is significantly more than anticipated. This recent action may be an indication of more aggressive cuts to home healthcare rates to come. We have chosen to estimate a 5% decrease in 2011, 2.5% decrease in 2012 and 1% in 2013 with moderate continued annual cuts (-0.5%) in reimbursement going forward as healthcare reform pressures Medicare to cut costs. We elected this step-down method for valuing cuts because we believe the industry is operating near its cost of capital and that continued 5% per annum cuts by CMS could not reasonably be absorbed by the industry in as short a time as three years.

Even as healthcare reform pressures hospitals and physicians to provide lower-cost care, we believe these providers will drive more patients into the home healthcare channel as a means to control costs and as a means to address hospital errors (such as low acuity infections and minor wound care or additional physical therapy) as hospital mistakes will no longer be reimbursed by Medicare under healthcare reform.

MEDICARE PART A & B AVERAGE PAYMENT PER DAY[8]



Amedisys has the advantage of a national network of home health agencies and centralized data and care management systems. We believe that the interface between home healthcare and large hospital systems will cause physicians and hospitals to prefer value-added home health agencies that provide technology tracking and physician portal interfaces compared to local and regional providers which only provide basic home health services with limited means to integrate and coordinate care.

As most people who benefit from home healthcare services qualify through aging-in through Medicare, we do not anticipate an uplift in the increased number of people coming into the healthcare system due to employer mandates and individual mandates starting in 2014.

HEALTHCARE REFORM TIMETABLE RELATED TO HOME HEALTHCARE[9]
2010
• Reduces annual market basket (inflationary) reimbursement update for inpatient hospitals and other healthcare facilities and makes adjustments for productivity. Hospital market basket reduced by 0.25% in 2010, 0.25% in 2011, 0.20% in 2012, and by varying amounts through 2019. • Reduces Medicare market basket adjustment by 1% in each of FY 2011-2013 for home health agencies.
2011
• Prohibits payments for hospital-acquired conditions, effective July 1, 2011.
2012

[8] CMS HCIS data for 2006. Hospital data includes inpatient PPS and non-PPS. Home health day calculated on 60-day episode

[9] Sources: Adapted from Standard & Poor's Healthcare Facilities Industry Survey, May 20, 2010; Congressional Budget Office; Foley Hoag LLP; Ropes & Gray LLP ; Henry J. Kaiser Foundation; US Chamber of Commerce.

• Extends Medicare gain-sharing project, which allows providers and doctors to share in the savings generated when the care provided is more efficient and of a higher quality care, based on defined thresholds.
2013
• Requires the establishment of a Medicare pilot program for bundled payments to long-term acute care hospitals • Imposition of excise tax on medical device providers equal to 2.3% of device revenues; excludes eyeglasses, contact lenses, hearing aids, and other devices sold to the general public.
2014
Increased Medicaid and SCHIP eligibility will extend health insurance coverage to approximately 10 million individuals (rising to approximately 16 million in 2017). • The establishment of health insurance exchanges will extend health insurance coverage to approximately 8 million individuals (rising to approximately 23 million in 2017). • States required establishing "American Health Benefit Exchanges" to facilitate the purchase of insurance. • Imposes fee on health insurance providers, starting at $8B for 2014, rising to $14.3B in 2018 and thereafter. • Establishes a so-called "individual mandate:" all US citizens and legal residents will be required to obtain qualifying health coverage, with a phased in tax penalty for those without coverage or who fail to meet the hardship exemption.
After 2014
• Effective January 1, 2018, the "Cadillac tax" begins—an excise tax levied on health insurers of employer-sponsored health plans whose aggregate value exceeds a certain threshold. For 2018, the threshold is $10,200 for individual plans and $27,500 for family plans; the tax is to be indexed to inflation.

Demographic trends will influence the home healthcare industry overall

The home healthcare industry will benefit from the increased volume of patients that will age into Medicare coverage and those that will require home healthcare, assisted living, and hospice services as a result of advanced age.

The typical Amedisys patient is 83 years old, takes about 12 medications daily and suffers from a number of co-morbidities. Amedisys differentiates itself from other home health providers by having a program for complex, chronically ill patients with programs that include:

Heart @ Home
Diabetes @ Home
Partners in Wound Care
Wound Care – A Therapy Approach
Surgical Recovery @ Home
Behavioral Health @ Home
COPD @ Home
Stroke Recovery @ Home
Chronic Kidney Disease @ Home
Pain Management @ Home
Rehab @ Home
Orthopedic Recovery @ Home
Dysphagia @ Home
Balanced for Life

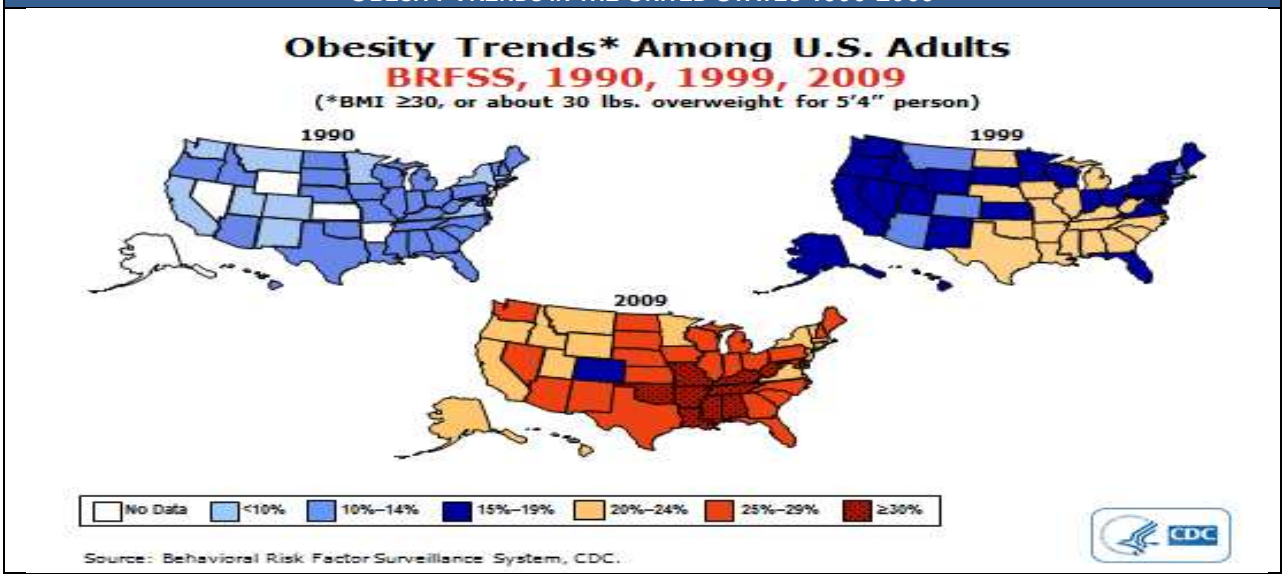
These programs are well suited to the aging population as well as the rising trend towards obesity in adults[10]. Obesity has a high association with cardiovascular disease, diabetes, almost all types of cancers, asthma, gallbladder disease, osteoarthritis and chronic back pain, all of which contribute to immobility and thus the candidates for home healthcare.[11] Additionally diabetes contributes to chronic

[10] CDC study

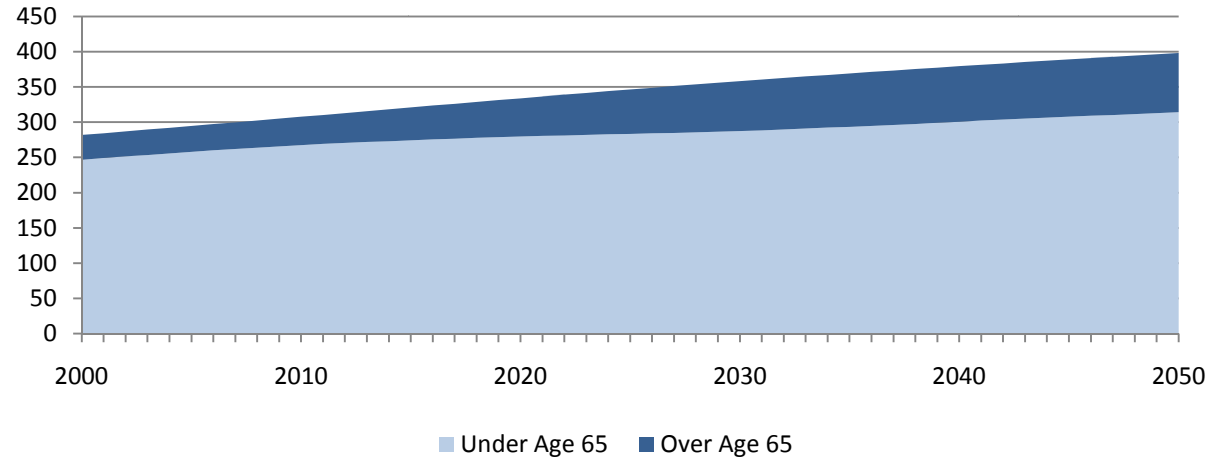
[11] Guh DP, Zhang W, Bansback N, Amarsi Z, Birmingham CL, Anis AH. 2009. The incidence of co-morbidities related to obesity and overweight: A systematic review and meta-analysis. *BMC Public Health* 9:88

kidney disease, wound care, stroke and other potentially disabling conditions[12]. Aging will increase the number volume of patients seeking home healthcare and utilization per person will increase due to the decreased overall health of the elderly population and the associated immobility issues that arise from having a more obese elderly population. The ability to be the "one stop shop" for these co-morbidities will be a key differentiator for Amedisys as many co-morbidities can be addressed in a fewer number of visits by home healthcare professionals.

OBESITY TRENDS IN THE UNITED STATES 1990-2009



DISTRIBUTION OF US POPULATION (IN MILLIONS)[13]



[12] Sullivan PW, Morrato EH, Ghushchyan V, Wyatt HR, Hill JO. 2005. Obesity, Inactivity, and the Prevalence of Diabetes and Diabetes Related Cardiovascular Comorbitidies in the U.S., 2000-2002. *Diabetes Care* 28:7.

[13] Source: US Census Bureau Population Estimates Program, 2006-2008 American Community Survey 3-Year Estimates

Valuation

As recently as April 15th of this year, Amedisys commanded a price of more than $60/share ($64.28 was the 52-week high as of Oct 9, 2010), and some Wall Street analysts were suggesting an $80/share valuation may be appropriate.[14] Now, with the stock hovering near $26/share, we plan to examine the forces driving down the current price and ask whether the assumptions underlying the price fall seem reasonable.

Pre-Investigation Targets

Our pre-litigation valuation agrees well with the unaffected stock prices for Amedisys from May 12, 2009 to May 12, 2010 where AMED showed a 52-week range of $66.07- $25.91 ($45.62 average). This valuation is derived by reducing organic growth from 11% per annum to 4% per annum over the next ten years while maintaining existing COGS margins. We note that declining growth is consistent with decreased opportunities for organic or acquired expansion. (The company has proven it can grow organically in the short-term at 10% absent price increases or new location openings; we discuss the methodology for arriving at the exact slope of growth decline below.) For our model, we assume margins decline over time as the strategies that have historically allowed AMED to compensate for fluctuations (usually downward) in Medicare reimbursement rates become increasingly less effective.

As we will discuss in more depth in the proceeding sections, AMED has been faced with a number of federal agency inquiries beginning with the announcement of the Senate Finance Committee investigation of AMED on May 13, 2010[15] as a result of a previous report from the *Wall Street Journal* on the billing practices of the company.

AMED Stock Prices from May 12, 2009 to May 12, 2010[16]

Our valuation was driven by the favorable demographic shifts discussed above, a decrease in the rate of acquisitions due to the maturity of Amedisys' market and the continued modest decline in Medicare reimbursement rates (see assumptions). This gave us a pre-litigation valuation range of $49.60 to $77.44 and a target unaffected price of $59.56 or a market capitalization of $1.7 billion.

[14] Finance.google.com stock price; Henderson, Jeffries Note, p. 5 (chart).
[15] "Senate Questions In-Home Caregivers" Barbara Martinez, *Wall Street Journal* May 13,2010
[16] Capital IQ

Pre-litigation Valuation Sensitivity Table			
	Cost of Equity		
Term. Grw th	7.07%	7.57%	8.07%
1.4%	$ 58.48	$ 53.68	$ 49.60
1.9%	$ 61.83	$ 56.35	$ 51.77
2.4%	$ 65.91	$ 59.56	$ 54.33
2.9%	$ 70.98	$ 63.45	$ 57.39
3.4%	$ 77.44	$ 68.28	$ 61.10

Reductions to Pre-Litigation Model

Given the state of affairs in 1Q2010, we believe that the set of factors capable of reducing market capitalization by a factor of two is small and circumscribed. We focus on two main drivers—changes in AMED's growth strategy and the recent Department of Justice investigation. We believe that even given declining growth rates and judicial investigation, the market reductions in valuation cannot be justified by this year's events.

Despite a convincing business model, Amedisys' operational strategy is not what drives value

The company has consistently articulated its value proposition as one of better outcomes at lower cost through knowledge management and economies of scale. As they themselves say, "Our strategy is to offer low-cost, outcome driven health care at home. We believe that our focus on clinical excellence, growth, and efficiency are the keys to our success."[17]

On its face, this strategy would appear to be highly successful. Amedisys has increased revenues by a factor of 17X in the last 10 years, and it has increased its net income margin from about 5% to about 7.5%. If one believes Amedisys, operational efficiency was indeed the key to the company's meteoric rise.

A More Complete Analysis of the Amedisys Profit Model

It is worth investigating how a company in an industry with RGDP + ε growth manages to compound its revenues 17X in a decade. When one considers that the gross margin for Amedisys' existing businesses was only 7% higher than the regional networks it acquired in 2009, it becomes clear that operating efficiency cannot be all of the story.

Another part of the secret recipe is the aggressive pursuit of referral sources and efficient organization, but then so too is some creative accounting. As we look to project future growth and margins, we believe it is important to disaggregate the components of Amedisys' meteoric growth and to separate the truth from the hype.

Startup agencies offer impressive returns (supposedly)

Amedisys provides no static pool information on the performance of its startups, but the annual filings due provide a solid clue as to the supposed profitability of a new venture. As a simplifying assumption, we begin our analysis by taking management at their word. This is a condition that we necessarily must relax later, but for now we will consider on its face that:

[17] Amedisys 10-K filed February 23, 2010, p. 4.

"Our typical start-up agency requires an initial investment between $300,000 and $500,000, takes approximately 18 to 30 months to earn back its investment and achieves an annual revenue run-rate of $1.5 million to $2.0 million in its third year of operation."[18]

Translating their words into math, we find that assuming a 13.5% operating margin (the 2005-2009 company arithmetic average) and linear revenue growth produces a result which matches management's formula.

Amedisys Startup Profitability (by semester, years 1-3)

Startup Facility Economics

Investment	$300K-$500K
Mos. to Payback	18-30
Stasis Revs.	$1.5MM-$2.0MM
Stasis Month	36

Per Amedisys 2009 10-K, p. 5.

Worst Case	0	0.5	1	1.5	2	2.5	3
Revenue	$ -	$ 250,000	$ 500,000	$ 750,000	$ 1,000,000	$ 1,250,000	$ 1,500,000
Operating Income*	$ -	$ 33,750	$ 67,500	$ 101,250	$ 135,000	$ 168,750	$ 202,500
Cumulative Operating Income	$ -	$ 33,750	$ 101,250	$ 202,500	$ 337,500	$ 506,250	$ 708,750
Payback Month (on $500K)	30						

* Using 2005-2009 average operating margin of 13.5%

Best Case	0	0.5	1	1.5	2	2.5	3
Revenue	$ -	$ 333,333	$ 666,667	$ 1,000,000	$ 1,333,333	$ 1,666,667	$ 2,000,000
Operating Income*	$ -	$ 45,000	$ 90,000	$ 135,000	$ 180,000	$ 225,000	$ 270,000
Cumulative Operating Income	$ -	$ 45,000	$ 135,000	$ 270,000	$ 450,000	$ 675,000	$ 945,000
Payback Month (on $300K)	19						

* Using 2005-2009 average operating margin of 13.5%

This model can also be used to impute an internal rate of return for our new ventures (here, we may assume the terminal value in year 3 is the stasis return, which would grow by long-term GDP of 3.5% to gain our perpetuity value).

Using the same analysis, we derive that:

Amedisys Startup Return (by semester, years 1-3)

IRR	0	0.5	1	1.5	2	2.5	3	Terminal
Worst Case*	$ (500,000)	$ 33,750	$ 67,500	$ 101,250	$ 135,000	$ 168,750	$ 202,500	$ 5,785,714
Best Case*	$ (300,000)	$ 45,000	$ 90,000	$ 135,000	$ 180,000	$ 225,000	$ 270,000	$ 7,714,286

Worst Case IRR	24.7%
Best Case IRR	36.1%
Worst Case NPV @ WAC of 6.67%	4,562,020
Best Case NPV @ WAC of 6.67%	6,437,526

**Assuming i=3.5% for perpetuity purposes*

Although we acknowledge that this model may appear overly simplistic, it does lead us to a key insight. If management is correct in its characterization of the average startup, then their decision to pursue a strategy based primarily on acquisition requires an absolutely astonishing return on acquisition to justify shifting focus away from green field expansion, which produces an unlevered return of approximately 30%![19]

Acquisitions raise accounting questions

[18] Amedisys, Inc. 2009 10-K filed February 23, 2010, p. 5.

[19] One might ask why we did not validate management's claim here using data. We respectfully submit that this consideration is better served in a further part of the report.

Given that green field development appears to produce spectacular results, we turn then to the issue of why management would acquire anything. In doing so, we begin to understand and to model better the growth engine of Amedisys. Let us consider the case of fiscal 2009, which saw the company acquire twenty (20) new locations, most of which were clustered in existing networks.

The acquired locations produced $312MM of revenue, $291.0MM from eight home health locations and $21MM from twelve hospice locations.[20] Let us consider only the home healthcare locations for purposes of comparability. We know from our green field analysis that a location with steady state revenues of $1.75MM per year has an NPV to Amedisys of approximately $5MM. Therefore, Amedisys' maximum willingness to pay per dollar of new revenue should be approximately $2.86—the logical point of indifference between acquisition and construction.

If Amedisys' new acquisitions produce $291MM of revenue, then theoretically Amedisys would pay up to $832MM to acquire such assets. In fact, Amedisys only had to pay $58.76MM for those assets, 0.2X revenues and only 7.5% of "intrinsic value"![21]

Another interesting point concerning these acquisitions was their characterization on the balance sheet. The twenty agencies acquired in 2009 were purchased for $53.6MM in cash and $9.4MM in promissory notes. Interestingly enough, the assets were taken onto the balance sheet as $58.0MM of Goodwill, $5.6MM of Other Intangible Assets, and $0.6MM of Other Liabilities. $63MM and not a single tangible asset acquired! Of course, we understand that if the book value of the liabilities at the target exceed the book value of the assets the purchase can be characterized as Goodwill, but it does seems a bit strange. After all, we know that providing services in home healthcare requires tangible assets, so why not take the tax benefit of the D&A in running forward operations? Perhaps it's a focus on earnings.

A Quick Note on Historical Goodwill Trends

In 2003, just two years after SFAS 142 changed the landscape of Goodwill forever and before the start of Amedisys' mid-2000's acquisition campaign, Amedisys required $7.2MM of net property plant & equipment ("PP&E") to generate $142.5MM of revenue. The following year, revenues jumped to $227MM due to acquisitions (a 59% increase), but net PP&E increased only 40% (to $10MM). Said differently, lean-and-mean Amedisys was generating $19.74 of revenue on its net PP&E while it's supposedly bloated acquisition targets were generating $30.39 on theirs. In the six full years elapsed since 2004, Goodwill has increased from 31% of total assets to 67%, primarily as a result of the pro-acquisition strategy employed by Amedisys and the characterization of the majority of its acquired assets as Goodwill. It is worth noting that since 2004, revenue generated per dollar of PP&E has fallen from $22.70 to $16.47. Also, as Goodwill does not amortize, we question just how much Depreciation and Amortization expense truly captures the replacement costs of the assets—more on this later.

The True Growth Story

Much of the earlier parts of this report have taken a tongue-in-cheek tone towards Amedisys' accounting and strategy. For the remainder, we intend to be quite serious. The initial analysis stemmed from management's assertion that a green field facility could return its investment in 18-30 months. This simply cannot be the case. Return on common equity for Amedisys since their 2002 restructuring and repositioning has averaged 18.7% with a standard deviation of 3.6% over a period when revenues have

[20] Amedisys, Inc. 2009 10-K filed February 23, 2010

[21] The total consideration for all assets purchased was $63MM, which included hospice. For the sake of example, I have pro-rated home healthcare's portion of the purchase price linearly.

increased by a factor of 10. It is simply impossible that new business developed at a 30% unlevered IRR produced those results—the actual returns are simply too low.

What is happening, in our view, is that management can selectively make green field start-ups perform at the 30% IRR mark by entering new markets or consolidating existing ones. This is the result of an aggressive referral strategy discussed below. However, since it is not their primary strategy, it also implies that such returns are not available on a broad scale and that growth must be acquired. Our assertion that acquisition assets were being purchased for 7.5% of intrinsic value (when considering a 30% IRR Greenfield option) becomes a less ridiculous assertion that these assets purchased at 0.2X revenues are being bought at roughly one third of the price to sales multiple of their five publicly traded competitors with market capitalizations over $100MM (which was a cap-weighted 0.62X sales as of October 8, 2010 per Google Finance).

Irrespective of how management improves operating performance or outcomes, purchasing assets at 33% of market value is a means of generating 17-20% returns on common equity over a period when most of the industry made its cost of capital and little more. How sustainable is this model? Well, sales per dollar of PP&E plus Goodwill has fallen from $3.13 in 2004 to $1.72 in 2009 over a period when revenues increased from $230MM to $1.5BN, so it appears that the number of targets available at attractive valuations is dwindling.

That said, we do believe that Amedisys is a top performer (7% gross margin improvement after acquisition is no small matter).

Acquired vs. Incumbent Locations 2009[22]

	2009	
	Acquired Cos.	Incumbent / Startup
Revenues		
Home Health	$ 291.0	$ 827.2
Hospice	21.0	48.1
Total	$ 312.0	$ 875.3
Cost of Service		
Home Health	$ 153.6	$ 370.0
Hospice	10.5	28.5
Total	$ 164.1	$ 398.5
Gross Margin		
Home Health	47.2%	55.3%
Hospice	50.0%	40.7%
Total	**47.4%**	**54.5%**

The use of technology, computerized staffing, and other efficiency does appear to credibly improve performance and patient outcomes; a source of competitive advantage which Amedisys may still use to make acquisition profitable even once pricing for targets normalizes. (We will consider the regulatory allegations relevant to Amedisys' margin improvement herein below.)

Of course, margins are only part of a larger story. There is also Amedisys' organic growth over the past several years. On a unit basis, we find the following:

ADMISSIONS TRENDS 2006-2010

Admissions	2006	2007	2008	2009	Q-on-Q 1Q10	Q-on-Q 2Q10
Unit Growth	7.4%	8.9%	8.9%	3.7%	10.7%	6.2%

Source: Amedisys 10-K and 10-Q filings

[22] Amedisys, Inc. 2009 10-K filed February 23, 2010

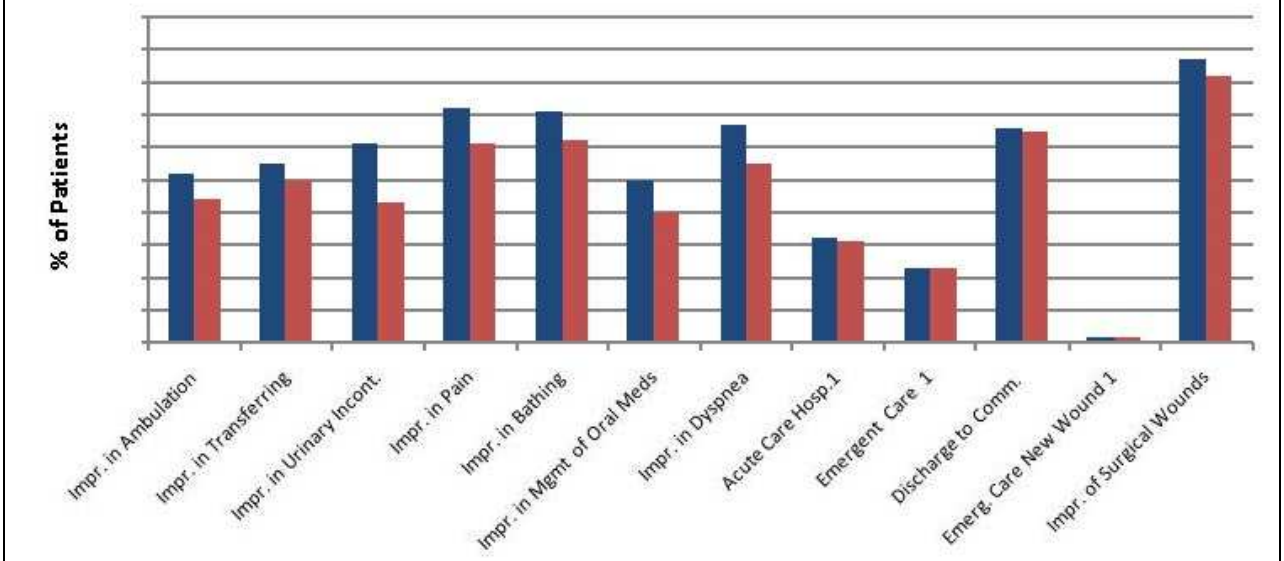
It should be noted that Amedisys aggregates the performance of its startup agencies within its "same store" calculation for year-over-year comparability purposes, which inflates the calculation by some margin—likely a small one.[23]

In 2010, which is a year characterized by minimal acquisition activity pursuant to a change in company policy, 1Q and 2Q results suggest that Amedisys is on-target for approximately 10% revenue growth (consistent with management's estimate of $1.625-$1.65BN in revenue for 2010). Our model assumes that this 10% organic growth rate is the absolute maximum Amedisys can achieve in the near term, and we believe that long-term growth must normalize (and quickly) because of the following point.

Amedisys maintains that, "The clinical outcomes we have achieved for our home health patients are among the best in the industry. This can be seen in collected and reported quality data from CMS, which show that we met or exceeded all of the measurement categories in the footprint we serve an [sic] 9 out of the 12 measurement categories when compared to the national average."[24]

Turning to the company's corporate marketing materials, we find that the actual differentials in outcomes are smaller than one might expect given the preceding statement. Consider:[25]

AMEDISYS OUTCOMES VS. FOOTPRINT OUTCOMES IN DECEMBER 2009



Notes: blue bars represent Amedisys, y-axis grid in 10% increments

Amedisys notes that they expend considerable effort in demonstrating their improved outcomes to referral partners, who are clinical professionals.[26] Implicitly, this is meant to support the notion that Amedisys can continue its trend of faster-than-market growth in the home healthcare industry.

However, if individual professionals are steering business to Amedisys at the point of acute care, it would follow that (a) the natural limit to Amedisys' share in its target markets should be well below 100%

[23] We attempted to derive the exact magnitude of the effect, but given the information available, the primary driver of this analysis would needs be change in revenue, which is highly sensitive to mix of admissions and readmissions and the length of treatment. Without more detailed information from the company, we believe it is impossible to estimate this performance with any reasonable level of certainty.
[24] Amedisys, Inc. 2009 10-K filed February 23, 2010, p.4.
[25] Amedisys, Inc. 8-K filed September 14, 2010, p.12.
[26] Amedisys, Inc. 2009 10-K filed February 23, 2010, p.7.

because of concentration risk from the standpoint of the referee and (b) in order to maintain their "competitive advantage", Amedisys would have an strong incentive to avoid patients with likely lower positive outcomes and therefore would not want to exceed a certain share. (Consider that, as share increases, Amedisys will become an increasingly large part of the "footprint" population, making progression from the mean increasingly difficult. To solve this problem, they would need to shift an increasing share of high risk patients onto less well-connected competitors.)

The above-mentioned line of reasoning may seem tortured, but there is evidence in the company's public filings to support such a view. In FY2002, Amedisys updated its stated corporate strategy to include the following:

"The Company has elected to increase its targeted marketing activities toward Medicare eligible patients and announced the termination of a number of managed care contracts in light of this refocus."[27]

It follows then, that Amedisys does actively manage its patient mix to the extent possible.

It is also worth noting the value the company places on referrals, in that same 2002 10-K, management notes:

"It is anticipated that revenue growth will be spurred by the Company's strategy to employ sales account executives whose sole focus will be to expand its referral base, so the Company is not dependent on relatively few physician groups in any given market."[28]

Because payment for referrals would constitute a Stark Act violation, it follows that this new team of executives must push improved outcomes as the primary driver of referrals, a task which becomes progressively harder as markets saturate.

In many cases, Amedisys has operated in incumbent markets for decades. If we know it must reach a saturation point in each (and, given its scale, can do so rapidly), Amedisys will not be able to sustain 10% earnings growth in markets expanding at 3% per annum, particular given that Medicare, the company's primary customer, is only increasing payments at a 10-year CAGR of 1% per annum.

Investigations of Allegations of Criminal Activity

On June 30, 2010 Amedisys received notice that it was the subject of investigation by the Securities and Exchange Commission ("SEC") and that it had also received a subpoena covering areas of interest to the Senate Finance Committee.[29] Moreover, on September 28, 2010 Amedisys announced that it had received a civil investigative demand the day prior from the U.S. Department of Justice ("DOJ") in respect of issues pertaining to the federal False Claims Act.[30]

The Senate Committee's focus has been on investigating Medicare fraud (an area which Amedisys previously ran afoul of the government on in the late 1990s), particularly concerning how episodic billings were being handled.[31]

[27] Amedisys, Inc. 2002 10-K filed March 28, 2003, p. 4.
[28] Amedisys, Inc. 2002 10-K filed March 28, 2003, p. 5.
[29] Amedisys, Inc. 8-K filed July 1, 2010.
[30] Amedisys, Inc. 8-K filed September 28, 2010.
[31] Associated Press. "Federal Investigators Demand Amedisys Documents". *Business Week Online, September 28, 2010 9:38AM ET,* accessed at: http://www.businessweek.com/ap/financialnews/D9IGUVQ80.htm.

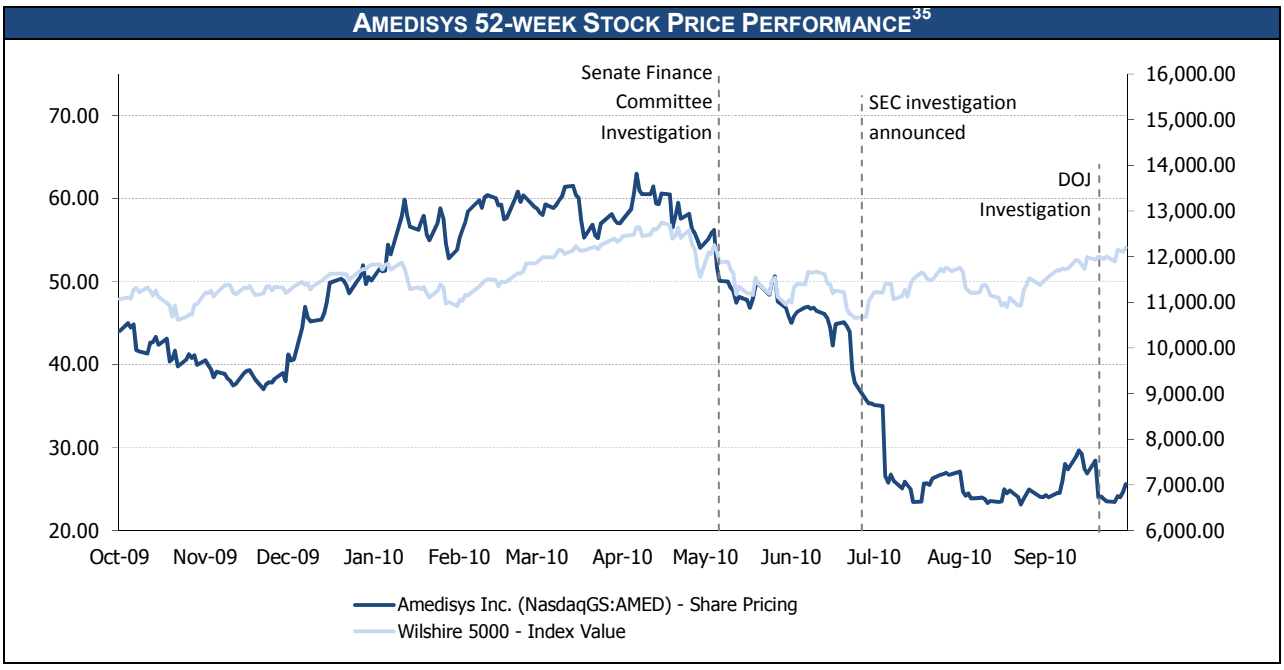
Absent access to the truth of these allegations, we remain agnostic as to whether the company is in violation of the False Claims Act. However, we do feel that we may be able to place reasonable limits on the value of any claims against the company should they be found to be in breach.

We turn to the case of the Columbia/HCA settlement in 2003, which has many parallels to the current situation. Like Amedisys, Columbia/HCA was accused of billing fraud at certain subsidiary locations. Interestingly enough, the fraud was exposed by internal whistle-blowers who sought (among moral issues) the reward offered for exposing Medicare billing malfeasance. Two facts about the case of HCA are important. First, the investigation was announced in 1997, but final federal settlement did not occur until June of 2003.[32] The second is the magnitude of the fine.

At the time of the investigation, HCA generated $18.8BN of revenue and had net income of $182MM.[33] The final criminal and civil fines for all infractions committed by the company and their subsidiaries were$1.721BN. Those fines were 10% of FY2001 revenue of $16.7BN, but 36.8% of Medicare revenues[34]. At the time of the company's LBO in 2006, the company was purchased for 0.85X revenue. If one takes the view that 100% of the fine was priced into the valuation (unlikely given that some of the fines had been paid), the damage to the stock-price was implicitly no more than 0.1X revenue.

Because Amedisys derives a greater amount of its revenues from Medicare than HCA did, the fines will be a larger portion of overall revenue, but likely 30-40% of Medicare revenues. We estimate a fine equivalent to 30-40% of 2010 Medicare revenues to have an impact of $422MM to 563MM on Amedisys' share price. Amedisys has lost almost 50% of its once $1.6BN market capitalization since the announcement of the federal investigations although, admittedly, not all of that is due to the fine. We believe that a substantial discount is also being applied for the inability of the company to access capital markets and continue acquiring companies at its current rate. However, this reaction appears overblown.

AMEDISYS 52-WEEK STOCK PRICE PERFORMANCE[35]



[32] Department of Justice Press Release dated June 23, 2003. Accessed at: http://www.justice.gov/opa/pr/2003/June/03_civ_386.htm

[33] HCA 10-K filing for FY 1997.

[34] 28% of FY2001 revenues were from Medicare

[35] As of 10/9/10, Capital IQ

Conclusion

Reduced to its elements, the Amedisys story is that it is a GDP+ growth story coming to an inflection point because of diminished acquisition prospects, regulatory hurdles, and market saturation. The company is aware of this (*cf.* their September 22, 2010 press release noting the restructuring of 39 agencies and a 75% reduction in planned green field expansion),[36] and we believe that they are planning to retrench and prove they can grow organically until regulatory hurdles clear and new acquisition targets can be found and purchased at reasonable prices.

The street has punished the stock both in terms of the magnitude of regulatory penalties (over $900BN NPV with probability =1.00 if one believes the dips in the stock price are 100% the result of federal fines) and in terms of diminished growth prospects (for a company where Jeffries was targeting an $80/share valuation as recently as February of this year).[37]

We believe that this volatility in the stock price is not justified. A close reading of the financial statements shows that the purported gains on acquisition and green field development had been declining for some time, and it is clear that retrenchment was foreseeable. Moreover, in 2010, we have been able to observe the company maintain nearly 10% organic growth when forced to focus on share gains. Extrapolating a 5 year return to industry average growth rates, one can still find a case for buying this stock. Even given the regulatory overhang (a five year process, we believe), the fundamental business model of Amedisys is not a bad one—even once you strip away the go-go growth story. This stock is not for the faint of heart, but it is a long-term value buy, and we believe that investing now at the low should produce significant returns over a five year horizon when regulatory issues are cleared and the issues around restructuring are clarified.

FINAL VALUATION AND SENSITIVITY

Current Stock Price as of 10/9/2010	**$**	**25.61**
52-Week High	$	64.28
52-Week Low	$	22.82
Fully Diluted Shares (in millions)		29.22
Unaffected Target Price per share:	$	59.56
Target Price:	**$**	**44.14**
Price Range Given estimated Federal Fine	**$38.99 to $49.28**	

Sensitivity Tables (Price per Share)

	Cost of Equity		
Term. Grw th	7.07%	7.57%	8.07%
1.4%	$ 58.48	$ 53.68	$ 49.60
1.9%	$ 61.83	$ 56.35	$ 51.77
2.4%	$ 65.91	$ 59.56	$ 54.33
2.9%	$ 70.98	$ 63.45	$ 57.39
3.4%	$ 77.44	$ 68.28	$ 61.10

	Cost of Equity		
Fed. Fine	7.07%	7.57%	8.07%
$250	$ 60.60	$ 54.42	$ 49.35
$500	$ 55.30	$ 49.28	$ 44.37
$1,000	$ 44.68	$ 38.99	$ 34.41
$1,500	$ 34.07	$ 28.72	$ 24.45
$2,000	$ 23.46	$ 18.44	$ 14.46

[36] Amedisys, Inc. 8-K filing recorded September 22, 2010.

[37] Henderson, Arthur I, Brian Tanquilut, and Paxton Scott, "Amedisys: Agency Consolidation a Good Strategic Move but not enough to move the Stock NT", Jeffries & Co. Publication, September 23, 2010.

Model Assumptions

Revenues are projected from a baseline population change in Medicare population (those above 65) as projected from the US Census Bureau, projections in Medicare reimbursement rates from healthcare policy releases and estimated acquisition and organic growth gains (see income statement). We model what we believe to be continued Medicare cuts to reimbursement as a constant -0.5% adjustment to Medicare rates.

Terminal Growth Rate was estimated to be a compounding of the factors discussed in revenue above through 2050 (estimated to be 2.44% growth in perpetuity).

Cost of Goods Sold, SG&A, Bad Debt Expense are projected as a percentage of revenues which have historically been stable over the past 4 years. We adjust COGS and SG&A by inflation given by the Economist Intelligence Unit forecasts through 2020.

Depreciation and Amortization are estimated as noted in the depreciation & amortization table. We believe that D&A will increase significantly through our forecast period due to the need for maintenance and replacement of what is currently noted as goodwill (as discussed above). This will not significantly affect cash flow estimates or our valuation.

Debt is estimated to be a constant multiple of EBITDA (see balance sheet items).

Cost of debt is estimated to be the coupon rate of debt outstanding.

Fully Diluted Shares Outstanding is estimated by including all options outstanding and restricted stock units according to the AMED 2009 10k, we assumed a repurchase of shares given the proceeds from exercise of in-the-money options (per the treasury stock-method).

Other assumptions are outlined in the tables following the APV valuation for Amedisys.

Adjusted Present Value Analysis: Amedisys

Free Cash Flow ($ Millions)	2006	2007	2008	2009	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Revenue	541.1	697.9	1,187.4	1,513.5	1,680.4	1,770.7	1,905.9	2,066.0	2,234.8	2,396.5	2,491.4	2,592.1	2,698.2	2,809.5	2,929.3
Growth (YoY)		*29.0%*	*70.1%*	*27.5%*	*11.0%*	*5.4%*	*7.6%*	*8.4%*	*8.2%*	*7.2%*	*4.0%*	*4.0%*	*4.1%*	*4.1%*	*4.3%*
Cost Of Goods Sold	252.2	329.0	562.6	724.5	805.1	845.1	917.7	1,000.6	1,085.5	1,166.3	1,213.7	1,265.2	1,318.3	1,374.0	1,434.0
Selling General & Admin Exp.	201.8	246.6	419.3	509.8	603.3	633.2	687.6	749.7	813.4	873.9	909.4	948.0	987.7	1,029.5	1,074.4
Provision for Bad Debts	11.4	12.0	24.0	20.2	30.0	31.6	34.0	36.9	39.9	42.8	44.5	46.3	48.2	50.2	52.3
Depreciation & Amort.	10.1	13.7	20.4	28.3	33.3	44.7	54.2	62.9	71.1	79.1	86.7	93.1	98.8	104.0	109.0
Operating Expense	223.3	272.4	463.7	558.2	666.6	709.5	775.8	849.5	924.4	995.8	1,040.6	1,087.4	1,134.7	1,183.7	1,235.8
Operating Income	65.7	96.6	161.1	230.7	208.7	216.2	212.4	215.9	224.9	234.4	237.1	239.5	245.2	251.9	259.6
EBITDA	75.8	110.3	181.5	259.1	242.0	260.9	266.6	278.8	296.0	313.5	323.8	332.6	344.0	355.9	368.6
Interest Expense	(4.9)	(0.8)	(16.6)	(11.7)	(8.3)	(8.9)	(9.1)	(9.5)	(10.1)	(10.7)	(11.1)	(11.4)	(11.7)	(12.2)	(12.6)
EBT	70.9	109.5	164.9	247.4	233.8	252.0	257.5	269.2	285.9	302.8	312.7	321.3	332.2	343.7	356.0
Income Tax Expense	23.6	38.3	54.7	86.2	89.5	96.4	98.5	103.0	109.4	115.9	119.7	122.9	127.1	131.5	136.3
NOPAT	47.2	71.2	110.2	161.2	144.3	155.5	159.0	166.2	176.5	186.9	193.1	198.3	205.1	212.2	219.8
Change in Working Capital	(44.8)	(6.1)	(30.2)	13.4	(3.3)	(1.8)	(2.7)	(3.2)	(3.3)	(3.2)	(1.9)	(2.0)	(2.1)	(2.2)	(2.4)
% of Change of Revenue		-4%	-6%	4%	-2%	-2%	-2%	-2%	-2%	-2%	-2%	-2%	-2%	-2%	-2%
Capital Expenditures	(29.3)	(28.6)	(28.4)	(36.4)	(60.1)	(63.3)	(68.2)	(73.9)	(79.9)	(85.7)	(89.1)	(92.7)	(96.5)	(100.5)	(104.8)
Minority Interest	-	-	0.1	(0.4)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
% of EBIT	-	-	0.0	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Levered Free Cash Flow	(26.9)	36.5	51.6	137.8	80.8	90.3	88.0	89.1	93.1	97.9	102.0	103.5	106.4	109.4	112.5
	-5.0%	5.2%	4.3%	9.1%	4.8%	5.1%	4.6%	4.3%	4.2%	4.1%	4.1%	4.0%	3.9%	3.9%	3.8%
Interest Expense	4.9	0.8	16.6	11.7	8.3	8.9	9.1	9.5	10.1	10.7	11.1	11.4	11.7	12.2	12.6
Corporate Tax Rate				38%	38%	38%	38%	38%	38%	38%	38%	38%	38%	38%	38%
Debt Tax Shield					3.2	3.4	3.5	3.6	3.9	4.1	4.2	4.3	4.5	4.7	4.8
APV Discount Factors:															
Cost of Equity				7.57%	100.0%	93.0%	86.4%	80.3%	74.7%	69.4%	64.5%	60.0%	55.8%	51.9%	48.2%
Cost of Debt				6.28%	100.0%	94.1%	88.5%	83.3%	78.4%	73.7%	69.4%	65.3%	61.4%	57.8%	54.4%
Present Value of Lev. FCF				748.1	80.8	84.0	76.1	71.5	69.5	68.0	65.8	62.1	59.3	56.7	54.2
Present Value of DTS				32.4	3.2	3.2	3.1	3.0	3.0	3.0	2.9	2.8	2.8	2.7	2.6

Terminal Value Calculation	Levered	Tax Shield
Value at 2020	112.5	4.8
Terminal Growth Rate	2.44%	2.44%
Terminal Value at 2020	2,193.9	5.0
PV of Terminal Value	1,057.5	2.4

Adjusted Present Value:	1,840.5
Net Debt	99.0
Preferred Stock	-
Minority Interest	1.2
Estimated Industry Value of Equity	**1,740.3**

Projected Income Statement ($ Millions)

For the Fiscal Period Ending	2006	2007	2008	2009	Avg %	Stdev	CAGR '06-'09	2010	2012	2014	2016	2018	2020
Revenue	541.1	697.9	1,187.4	1,513.5			*40.9%*	1,680.4	1,905.9	2,234.8	2,491.4	2,698.2	2,929.3
Total Revenue	**541.1**	**697.9**	**1,187.4**	**1,513.5**			*40.9%*	**1,680.4**	**1,905.9**	**2,234.8**	**2,491.4**	**2,698.2**	**2,929.3**
% Change		*29.0%*	*70.1%*	*27.5%*	*42.2%*	*24.2%*		*11.0%*	*7.6%*	*8.2%*	*4.0%*	*4.1%*	*4.3%*
Cost Of Goods Sold	252.2	329.0	562.6	724.5			*42.1%*	805.13	917.66	1,085.54	1,213.70	1,318.25	1,433.96
Gross Profit	**288.9**	**368.9**	**624.8**	**789.0**			*39.8%*	**875.3**	**988.2**	**1,149.3**	**1,277.7**	**1,379.9**	**1,495.4**
Selling General & Admin Exp.	201.8	246.6	419.3	509.8			*36.2%*	603.26	687.57	813.36	909.38	987.72	1,074.41
Provision for Bad Debts	11.4	12.0	24.0	20.2			*21.0%*	30.02	34.05	39.93	44.51	48.20	52.33
Depreciation & Amort.	10.1	13.7	20.4	28.3			*41.0%*	33.29	54.23	71.09	86.68	98.76	109.05
Total Operating Expenses	**223.3**	**272.4**	**463.7**	**558.2**			*35.7%*	**666.6**	**775.8**	**924.4**	**1,040.6**	**1,134.7**	**1,235.8**
% of Revenue	41.3%	39.0%	39.0%	36.9%	39.1%	*1.8%*	*-3.7%*	39.7%	40.7%	41.4%	41.8%	42.1%	42.2%
Operating Income	**65.7**	**96.6**	**161.1**	**230.7**			*52.0%*	**208.7**	**212.4**	**224.9**	**237.1**	**245.2**	**259.6**
EBIT Margin	*12.1%*	*13.8%*	*13.6%*	*15.2%*	*13.7%*	*1.3%*	*7.9%*	*12.4%*	*11.1%*	*10.1%*	*9.5%*	*9.1%*	*8.9%*
EBITDA	**75.8**	**110.3**	**181.5**	**259.1**			*50.7%*	**242.0**	**266.6**	**296.0**	**323.8**	**344.0**	**368.6**
EBTIDA Margin	*14.0%*	*15.8%*	*15.3%*	*17.1%*	*15.6%*	*1.3%*	*6.9%*	*14.4%*	*14.0%*	*13.2%*	*13.0%*	*12.7%*	*12.6%*
Interest Expense	(4.9)	(0.8)	(16.6)	(11.7)			*33.7%*	(8.27)	(9.11)	(10.11)	(11.06)	(11.75)	(12.59)
Interest and Invest. Income	1.2	4.0	1.0	0.2			*-43.8%*	9.97	11.31	13.26	14.79	16.01	17.39
Net Interest Exp.	**(3.7)**	**3.2**	**(15.6)**	**(11.5)**			*45.8%*	**1.7**	**2.2**	**3.2**	**3.7**	**4.3**	**4.8**
% of Revenue	*-0.7%*	*0.5%*	*-1.3%*	*-0.8%*	*-0.6%*	*0.7%*		*0.1%*	*0.1%*	*0.1%*	*0.1%*	*0.2%*	*0.2%*
Other Non-Operating Inc. (Exp.)	0.5	(0.3)	(0.4)	1.6			*42.5%*	0.54	0.61	0.72	0.80	0.87	0.94
% of Revenue	*0.1%*	*0.0%*	*0.0%*	*0.1%*	*0.0%*	*0.1%*		*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
EBT Excl. Unusual Items	**62.5**	**99.4**	**145.1**	**220.8**			*52.3%*	**211.0**	**215.2**	**228.8**	**241.7**	**250.4**	**265.3**
Unusual Items	(0.6)	3.9	(4.6)	(1.2)			*26.0%*	0.51	0.58	0.68	0.76	0.82	0.89
As a % of Revenue	0%	1%	0%	0%	*0.0%*			0%	0%	0%	0%	0%	0%
EBT Incl. Unusual Items	**61.9**	**103.4**	**140.5**	**219.6**			*52.5%*	**211.5**	**215.8**	**229.5**	**242.4**	**251.2**	**266.2**
EBT Margin (inc. unusual items)	11.4%	14.8%	11.8%	14.5%	13.1%	*1.8%*	*8.3%*						
Income Tax Expense	**23.6**	**38.3**	**54.7**	**86.2**			*53.9%*	80.74	82.36	87.56	92.48	95.82	101.54
Effective tax rate (Excl. Unusual items)	37.8%	38.5%	37.7%	39.0%	38.3%	*0.6%*		38.3%	**38.3%**	**38.3%**	**38.3%**	**38.3%**	**38.3%**
Earnings from Cont. Ops.	**38.3**	**65.1**	**85.8**	**133.5**			*51.7%*	***130.7***	***133.4***	***141.9***	***149.9***	***155.4***	***164.7***
Earnings of Discontinued Ops.	**0**	**0**	**0**	**0**			*NA*	-	-	-	-	-	-
Net Income	**38.3**	**65.1**	**85.8**	**133.5**			*NM*	**130.7**	**133.4**	**141.9**	**149.9**	**155.4**	**164.7**
Net Margin	*7.1%*	*9.3%*	*7.2%*	*8.8%*	*8.1%*			*7.8%*	*7.0%*	*6.3%*	*6.0%*	*5.8%*	*5.6%*

Balance Sheet ($ Millions)	2006	2007	2008	2009
ASSETS				
Total Cash & ST Investments	84.2	56.2	2.8	34.5
Total Receivables	79.9	96.3	176.5	157.6
% of Revenue	*14.8%*	*13.8%*	*14.9%*	*10.4%*
Other Current Assets	15.0	12.0	15.0	26.0
% of Cash	*2.8%*	*1.7%*	*1.3%*	*1.7%*
Total Current Assets	**179.2**	**164.5**	**194.4**	**218.0**
Gross Property, Plant & Equipme	75.0	93.1	118.5	151.7
Accumulated Depreciation	(22.0)	(24.8)	(39.2)	(59.8)
Net Property, Plant & Equipr	**53.0**	**68.3**	**79.3**	**91.9**
Goodwill	213.0	332.5	733.9	786.9
Other Intangibles	12.7	14.3	42.4	57.6
Deferred Tax Assets, LT	0	0	0	0
Deferred Charges, LT	0	0.4	6.9	5.4
Loans Receivable Long-Term	0	0	0	0
Long-term Investments	0	0.4	4.7	5.5
Other Long-Term Assets	5.8	6.6	8.7	7.0
Long-Term Assets	231.6	354.3	796.6	862.4
Total Assets	**464**	**587**	**1,070**	**1,172**
LIABILITIES				
Accounts Payable	14.3	14.4	18.7	16.5
Accrued Exp.	45.4	63.4	131.9	152.2
Curr. Port. of LT Debt	2.9	11.0	42.6	44.2
Curr. Port. of Cap. Leases	0.3	0	0	0.1
Curr. Income Taxes Payable	0	2.4	0.8	0
Def. Tax Liability, Curr.	11.6	6.8	4.7	11.2
Short-term Borrowings	0	0	0	0
Unearned Revenue, Current	0	0	0	0
Other Current Liabilities	7.4	3.7	5.9	5.1
Total Current Liabilities	**81.9**	**101.7**	**204.6**	**229.3**
Long-Term Debt	1.7	13.0	285.9	170.9
Capital Leases	0.4	0	0	0
Def. Tax Liability, Non-Curr.	10.8	18.5	11.5	29.4
Minority Interest	0	0.8	0.8	1.2
Other Non-Current Liabilities	4.9	6.1	6.0	6.4
Total Liabilities	**99.7**	**140.1**	**508.9**	**437.2**
Pref. Stock, Convertible	0	0	0	0
Pref. Stock, Other	0	0	0	0
Total Pref. Equity	**0**	**0**	**0**	**0**
Common Stock	0.0	0.0	0.0	0.0
Additional Paid In Capital	279.6	297.8	326.1	363.7
Retained Earnings	84.8	149.6	236.3	372.1
Treasury Stock	(0.4)	(0.4)	(0.6)	(0.7)
Comprehensive Inc. and Other	0	0.0	(0.4)	0.1
Total Common Equity	**364.0**	**447.0**	**561.4**	**735.2**
Total Equity	**364.0**	**447.0**	**561.4**	**735.2**
Total Liabilities And Equity	**464**	**587**	**1,070**	**1,172**

Terminal Growth Calculations and factors:

For the Fiscal Period Ending	2010	2015	2020	2030	2040	2050	Long-run Population Growth
Revenue factors							
US Census Data & Projections							
Under Age 65	267.78	274.51	279.83	287.57	300.78	314.33	
Over Age 65	40.12	46.57	54.30	70.84	78.77	84.20	
Total:	307.91	321.08	334.12	358.41	379.55	398.53	
% Change (proxy for utilization change)	*1.86%*	*3.16%*	*3.28%*	*2.00%*	*0.57%*	*0.72%*	*1.48%*
Medicare Reimbursement Changes		-0.05%	-0.05%	-0.05%	-0.05%	-0.05%	*-0.05%*
Gain in Share through acquisition & organic gro	9.00%	4.00%	1.00%	1.00%	1.00%	1.00%	*1.00%*
Net Change	*11.03%*	*7.24%*	*4.26%*	*2.96%*	*1.53%*	*1.68%*	*2.44%*

Amedisys Capitalization & Cost of Debt:

Capitalization Table	2006	2007	2008	2009	*AVG %*	*CAGR*	2010	2012	2014	2016	2018	2020
Cash	**84.2**	**56.2**	**2.8**	**34.5**		*-25.7%*	**109.8**	**124.5**	**144.6**	**158.2**	**168.1**	**179.0**
Total Cash & ST Investments	84.2	56.2	2.8	34.5		*-25.7%*						
As a % of Revenue	16%	8%	0%	2%	*6.7%*		7%	7%	7%	7%	7%	7%
Interest Income	**1.2**	**4.0**	**1.0**	**0.2**		*-43.8%*	**10.0**	**11.3**	**13.1**	**14.4**	**15.3**	**16.3**
% of Cash & ST Investments	1%	7%	36%	1%	*9.1%*		9.1%	9.1%	9.1%	9.1%	9.1%	9.1%
Debt	**4.6**	**24.0**	**328.6**	**215.1**		*259.7%*	**190.8**	**216.4**	**251.4**	**274.9**	**292.1**	**311.1**
As a multiple of EBITDA	.06x	.22x	1.81x	.83x	.73x		.73x	.73x	.73x	.73x	.73x	.73x
Interest Expense	4.9	0.8	16.6	11.7		*33.7%*	8.9	10.1	11.8	12.9	13.7	14.6
% of Debt	NM	3.3%	5.1%	5.4%	*4.7%*		4.7%	4.7%	4.7%	4.7%	4.7%	4.7%
Total Equity	**363.99**	**447.01**	**561.40**	**735.20**		*26.4%*						
					Avg	*Stdev*						
Debt to Equity	0.01	0.05	0.59	0.29	*0.24*	*0.23*						
Cash/Debt	18.23	2.34	0.01	0.16	*4.26*	*7.86*						
Debt/EBITDA	.06x	.22x	1.81x	.83x	*.73x*	*.79x*						

Coupon Rate:	Maturity	Amt ($M	Issued:
6.49%	Mar-15	$ 35.00	Mar-08
6.28%	Mar-14	$ 30.00	Mar-08
6.07%	Mar-13	$ 35.00	Mar-08

Estimating cost of debt: 6.28%

Projected Cash Flows:

Cashflow Elements	2006	2007	2008	2009	Avg %	Stdev	CAGR	2010	2012	2014	2016	2018	2020
Change in WC Accounts	(44.8)	(6.1)	(30.2)	13.4			*-166.9%*	(3.3)	(2.7)	(2.9)	(1.4)	(1.5)	(1.7)
% of Change of Revenue		*-3.9%*	*-6.2%*	*4.1%*	*-2.0%*	*5.4%*		*-2.0%*	*-2.0%*	*-2.0%*	*-2.0%*	*-2.0%*	*-2.0%*
Capital Expenditure	(29.3)	(28.6)	(28.4)	(36.4)			*7.5%*	(60.1)	(68.2)	(79.2)	(86.6)	(92.0)	(98.0)
As a % of Revenue	*-5.4%*	*-4.1%*	*-2.4%*	*-2.4%*	*-3.6%*	*1.5%*		*-3.6%*	*-3.6%*	*-3.6%*	*-3.6%*	*-3.6%*	*-3.6%*
Depreciation & Amort.	8.3	12.3	18.7	24.5			*43.4%*	29.4	49.8	65.9	80.1	90.1	97.8
As a % of BoY Net PPE		*23.3%*	*27.4%*	*30.9%*	*27.2%*	*3.8%*	*3.5%*	*32.0%*	*34.3%*	*36.7%*	*39.3%*	*42.1%*	*45.1%*
Amort. of Goodwill and Intangibles	1.8	1.4	1.7	3.8			*28.5%*	3.9	4.4	5.1	5.6	6.0	6.3
As a % of Revenue	*0.33%*	*0.20%*	*0.14%*	*0.25%*	*0.23%*	*0.1%*		*0.23%*	*0.23%*	*0.23%*	*0.23%*	*0.23%*	*0.23%*
Deprec. & Amort (incl. intangibles)	10.1	13.7	20.4	28.3			*41.0%*	33.3	54.2	71.0	85.7	96.1	104.1
As a % of Revenue	1.9%	2.0%	1.7%	1.9%	1.86%	*0.1%*		2.0%	2.8%	3.2%	3.5%	3.7%	3.8%

Estimating the cost of capital:

Ticker	Equity Beta[1]	Debt	Equity[2]	D/E[3]	Total Capitalization	Tax Rate	Asset Beta
ADUS	-0.33613	49.24	51.59	95.4%	April 9, 1900	38%	-0.21151
AFAM	0.96044	4.68	267.48	1.7%	September 28, 1900	38%	0.95019
AMED	0.85957	215.15	789.12	27.3%	September 30, 1902	38%	0.73574
GTIV	0.39376	238.12	735.96	32.4%	August 31, 1902	38%	0.32821
LHCG	0.24682	10.25	433.82	2.4%	March 19, 1901	38%	0.24327
LNCR	0.44419	484.87	2,363.87	20.5%	October 18, 1907	38%	0.39427
ROHI	0.53080	514.67	46.06	*1117.4%*	July 13, 1901	38%	0.06721
Median:	0.44419158	215.15	433.82	23.9%	560.73	38%	0.3282065
Mean (W/Avg):	0.50964973	216.71	669.70	185.3%	886.41	38%	0.4492442

Risk Free Rate: 2.75% Yield on 10 Year Treasury
Market Risk Premium: 7% Historic Market Risk Premium

UL Cost of Equity	**7.57%**

Using AMED Rolling 5 Year Average of Beta

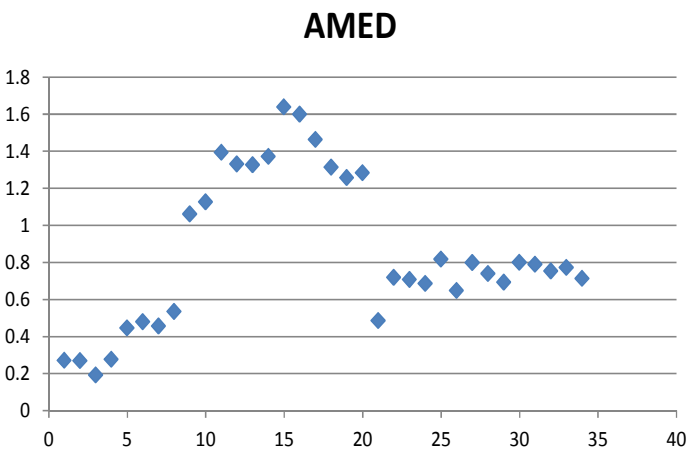
1. Company monthly returns regressed against composite of NASDAQ, AMEX, NYSE stocks
2. Market Value of Equity as of 9/17/10, Capital IQ
3. Excludes ROHI from Mean and Median Calcs

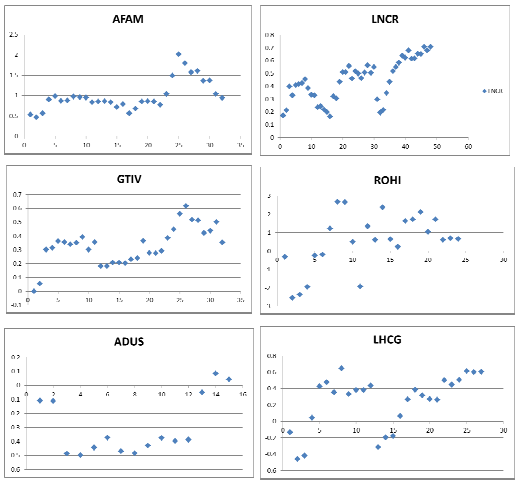
Cost of Debt	**6.28%**

WACC	**6.67%**

Estimating AMED's beta:

Amedisys Beta was the most stable in the industry despite significant fluctuations in the past. AMED began trading on 2/28/02, we regressed the company performance against monthly returns, over a 60 data point rolling period.





Ticker	Average Beta	Comments
ADUS	-0.33613023	Regressed against daily returns (only started trading in 2009), rolling 30 data points
AFAM	0.960442211	Regressed against monthly returns over a 60 data point rolling period
AMED	0.859571292	Began in 2/28/02, Regressed against monthly returns, over a 60 data point rolling period
GTIV	0.393757926	Regressed against monthly returns over a 60 data point rolling period
LHCG	0.246816821	Began in 5/31/05, Regressed against monthly returns, rolling 30 data points
LNCR	0.444191577	Regressed against monthly returns over a 60 data point rolling period
ROHI	0.53079997	Started in 10/31/05 and went to OTC after 6/30/08, Regressed against monthly returns over a 10 data point rolling period

Fully Diluted Shares Outstanding:

Calculation of Fully Dilluted Shares Outstanding				
Shares Outstanding		28,820,619	Aug 4, 2010 (6/30 10Q)	
Target Share Price	$	59.56	convergence through iteration	
Treasury Stock Method				
Proceeds from Options		7,105,920		
Shares Repurchased		119,316		
Net Dilution		400,302.25		
Fully diluted shares		29,220,921.25		

Tranches	Options Out		W/Avg. K	Options Exercised	Proceeds from Sale
At 12/31/2009	424,234	$	16.75	424,234	7,105,920
Restricted Stock Units	95,384	$	-	95,384	-
Total:	519,618			519,618	7,105,920

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