Zacks Small-Cap Research

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Steven Ralston, CFA
312-265-9426
sralston@zacks.com

scr.zacks.com
10 S. Riverside Plaza, Chicago, IL 60606

Nobilis Health Corp. (T.NHC - TSE)

T.NHC: After 576% rally over 15 months since recommendation, rating now a Hold, solely based on valuation. Powerful fundamentals are still intact.

Current Recommendation	**Hold**
Prior Recommendation	Buy
Date of Last Change	04/10/2015
Current Price (03/10/15)	$8.06
Six- Month Target Price	**$8.15**

OUTLOOK

Nobilis Health now holds interests in and operates six ambulatory surgical centers (ASCs) in Houston, Dallas and Scottsdale. During 2014, two MRI Centers were acquired, an ASC was opened in Scottsdale, an LLC was formed to own and operate a hospital and an ASC in Houston and Athas Health was acquired, all of which are expected to bolster the company's growth going forward. Management is implementing a growth strategy, which includes acquisitions, geographical expansion and Direct-to-Consumer marketing programs. Hold rating reflects stock having achieved valuation-based target.

SUMMARY DATA

52-Week High	**8.33**
52-Week Low	**0.97**
One-Year Return (%)	**682.5**
Beta	**0.54**
Average Daily Volume (shrs.)	**475,302**
Shares Outstanding (million)	**61.21**
Market Cap. ($CDN million)	**493.3**
Short Interest Ratio (days)	**0.37**
Institutional Ownership (%)	**31.4**
Insider Ownership (%)	**35.1**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**27.4**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**57.6**
P/E using 2015 Estimate	**16.8**
P/E using 2016 Estimate	**11.9**
Zacks Rank	**N/A**

Risk Level	**Above Average**
Type of Stock	**Small-Growth**
Industry	**Medical Care**
Zacks Rank in Industry	**N/A**

ZACKS ESTIMATES

Revenue
(in millions of $CDN)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2013	4.1 A	5.9 A	7.6 A	13.5 A	31.1 A
2014	12.1 A	15.1 A	17.2 A	39.6 A	84.0 A
2015	34.0 E	40.3 E	49.1 E	86.1 E	209.5 E
2016					298.0 E

Earnings per Share
(EPS is operating earnings before non recurring items)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2013	-$0.02 A	-$0.02 A	-$0.01 A	$0.08 A	$0.04 A
2014	-$0.02 A	$0.01 A	$0.02 A	$0.10 A	$0.14 A
2015	$0.05 E	$0.08 E	$0.11 E	$0.22 E	$0.48 E
2016					$0.68 E

Zacks Projected EPS Growth Rate - Next 5 Years % **25**

Quarterly EPS may not equal annual EPS total due to rounding.

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KEY POINTS

- Nobilis Health is a Canadian healthcare company that develops, acquires, owns and manages surgical medical facilities in the United States, primarily Ambulatory Surgical Centers (ASCs). Currently, the company holds equity interests in six ASCs (three in Houston, two in Dallas and one in Scottsdale), along with a surgical hospital, two MRI (Magnetic Resonance Imaging) Centers and one Urgent Care Center in the metropolitan Houston area. In addition, the company generates patient flow to its affiliated doctors by marketing its branded procedures through Direct-to-Consumer marketing programs, now provided by newly acquired Athas Health.
- Management's **growth strategy** entails generating organic growth through acquisitions, targeted direct-to-consumer marketing campaigns and physician referrals.
- Nobilis Health employees a **Direct-to-Consumer marketing program** model that was significantly enhanced by **the acquisition of Athas Heath LLC** in November 2014. As a result of integrating the Athas marketing platform into Nobilis, management anticipates 2015 revenues increasing 145% to $205 million.
- The company's **acquisition strategy** entails building a complementary network of ASCs and other healthcare facilities in metropolitan of the United States. Currently, Nobilis Health has operations in the Houston, Dallas and Scottsdale markets and is targeting to replicate the ASC network-building process in other metropolitan areas.
- The domestic ASC industry is highly fragmented. With an estimated 5,000 ASCs, only about 1,300 are managed by multi-facility chains, and the largest chain (AmSurg) controls only 243 centers.
- In September 2014, Nobilis Health formed a LLC with First Surgical to own and operated **First Street Hospital** and **First Street Surgical Center** in Houston. Nobilis Health owns 51% of the LLC and is managing the operations of the hospital and surgical center.
- The turnaround and subsequent consistent sequential quarterly growth of net patient revenues beginning in 2013 was largely driven by the company's Direct-to-Consumer marketing effort. Recent acquisitions have bolstered top-line growth.
- Management expects Management's strategy of coupling direct-to-patient marketing with physician-centric operations at the company's facilities and surgical centers was very successful in 2014. During the year, total revenues increased 170% to $84.0 million. Also, Nobilis generated adjusted EBITDA of $10.4 million during 2014 versus $2.7 million in 2013. But even prior to the acquisition of Athas on November 1st, net patient service revenue had increased 152% year-over-year during the first 9-months of the year. But obviously, the acquisition of Athas and the subsequent creation of a marketing segment are very significant developments going forward.
- NHC will be listed on the NYSE in the near future since the registration process appears to be nearly completed.
- The company changed its name to **Nobilis Health Corp.** in December 2014.
- With the stock having achieved our valuation target, our rating is now a Hold.

RECENT NEWS

Financial results for fourth quarter and year of 2014

On March 23, 2015, Nobilis Health reported financial results for the fourth quarter and year ending December 31, 2014. For the fourth quarter, total revenues increased 193% to $39.6 million as net patient service revenue increased 170% to $36.5 million compared to $13.5 million in the fourth quarter of 2013, primarily due to an increase in case volume driven by newly acquired medical services facilities. Operating salaries and benefits increased a commensurate 174% to $5.05 million, primarily due to the opening of the Scottsdale Surgery Center, First Nobilis Hospital and First Nobilis Surgical Center locations. Medical supply expense increased 125%, less than the increase of net patient revenue. However, operating general & administrative expense increased 209% to $13.7 million, but includes $1.8

million of the marketing expenses attributable to newly acquired Athas. Total corporate costs increased 20.8%, primarily due to additional corporate staff that was related to acquisitions. Net income attributable to common shareholders improved 105% to $6.2 million; however, due to the issuance of shares, warrants and options during the year, EPS increased 19.0% to $0.10 per diluted share compared with $0.08 per diluted share in the comparable quarter last year.

Nobilis Health Corp.								Consolidated
	2008	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2014**
Private insurance and other private pay	91.4%	87.1%	82.5%	86.5%	90.1%	92.4%	97.0%	97.1%
Workers compensation	4.9%	8.1%	12.4%	8.6%	6.2%	4.5%	2.3%	2.2%
Medicare	1.5%	2.7%	5.1%	4.9%	3.7%	3.1%	0.7%	0.7%
Other	2.2%	2.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

During 2014, total revenues increased 170% to $84.0 million as net patient service revenue increased 160% from $31.1 million to $80.9 million. The different rates of increase are attributable to the newly acquired marketing segment (Athas). Meanwhile, the robust increase in net patient revenue was driven by increased case volume and the addition of the newly acquired facilities. For the year, total cases increased 59.0% from 5,496 to 8,740 cases. Procedure volume increased 33.7% from 19,718 to 26,362.

Nobilis Health Corp.								Consolidated
Number of Cases	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2014**
Pain Management	4,855	3,074	2,540	2,799	2,884	2,887	3,415	3,593
Musculoskeletal Interventions	-	-	-	-	-	-	18	224
Interventional Headache Procedure	-	-	-	-	-	-	0	40
Orthopedics	2,330	1,871	1,171	858	694	724	985	985
Podiatry	607	247	21	346	156	286	361	361
Gastro-intestinal	793	420	5	-	70	269	213	213
General Surgery	423	393	331	469	353	415	550	550
Plastic & Reconstructive	-	-	-	-	-	-	421	421
Bariatrics	-	-	-	-	-	372	1,591	1,591
GYN	-	-	-	-	-	77	134	134
Ear, Nose, Throat (E.N.T.)	643	471	265	243	311	466	628	628
Total	9,651	6,476	4,333	4,715	4,468	5,496	8,316	8,740

Nobilis Health Corp.								Consolidated
Percentage of Cases	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2014**
Pain Management	50.3%	47.5%	58.6%	59.4%	64.5%	52.5%	41.1%	41.1%
Musculoskeletal Interventions	-	-	-	-	-	-	0.2%	2.6%
Interventional Headache Procedure	-	-	-	-	-	-	0.0%	0.5%
Orthopedics	24.1%	28.9%	27.0%	18.2%	15.5%	13.2%	11.8%	11.3%
Podiatry	6.3%	3.8%	0.5%	7.3%	3.5%	5.2%	4.3%	4.1%
Gastro-intestinal	8.2%	6.5%	0.1%	-	1.6%	4.9%	2.6%	2.4%
General Surgery	4.4%	6.1%	7.6%	9.9%	7.9%	7.6%	6.6%	6.3%
Plastic & Reconstructive	-	-	-	-	-	-	5.1%	4.8%
Bariatrics	-	-	-	-	-	6.8%	19.1%	18.2%
GYN	-	-	-	-	-	1.4%	1.6%	1.5%
Ear, Nose, Throat (E.N.T.)	6.7%	7.3%	6.1%	5.2%	7.0%	8.5%	7.6%	7.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Nobilis Health Corp.								Consolidated
Procedures	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2014**
Pain Management	28,576	14,942	10,704	11,098	9,838	11,928	13,246	13,424
Musculoskeletal Interventions	-	-	-	-	-	-	18	224
Interventional Headache Procedure	-	-	-	-	-	-	0	40
Orthopedics	5,996	4,623	2,756	2,191	2,737	2,417	2,808	2,808
Podiatry	2,490	1,140	56	1,686	703	1,566	1,800	1,800
Gastro-intestinal	956	651	7	-	97	400	295	295
General Surgery	966	823	719	1,081	1,190	1,095	1,205	1,205
Plastic & Reconstructive	-	-	-	-	-	-	752	752
Bariatrics	-	-	-	-	-	594	3,632	3,632
GYN	-	-	-	-	-	98	163	163
Ear, Nose, Throat (E.N.T.)	3,337	1,998	980	917	1,014	1,620	2,019	2,019
Total	42,321	24,177	15,222	16,973	15,579	19,718	25,938	26,362

Nobilis Health Corp.								Consolidated
Percentage of Cases	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2014**
Pain Management	67.5%	61.8%	70.3%	65.4%	63.1%	60.5%	51.1%	50.9%
Musculoskeletal Interventions	-	-	-	-	-	-	0.1%	0.8%
Interventional Headache Procedure	-	-	-	-	-	-	0.0%	0.2%
Orthopedics	14.2%	19.1%	18.1%	12.9%	17.6%	12.3%	10.8%	10.7%
Podiatry	5.9%	4.7%	0.4%	9.9%	4.5%	7.9%	6.9%	6.8%
Gastro-intestinal	2.3%	2.7%	0.0%	-	0.6%	2.0%	1.1%	1.1%
General Surgery	2.3%	3.4%	4.7%	6.4%	7.6%	5.6%	4.6%	4.6%
Plastic & Reconstructive	-	-	-	-	-	-	2.9%	2.9%
Bariatrics	-	-	-	-	-	3.0%	14.0%	13.8%
GYN	-	-	-	-	-	0.5%	0.6%	0.6%
Ear, Nose, Throat (E.N.T.)	7.9%	8.3%	6.4%	5.4%	6.5%	8.2%	7.8%	7.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

For the year, operating salaries and benefits increased 124% to $11.9 million, primarily due to the opening of the Scottsdale Surgery Center, First Nobilis Hospital and First Nobilis Surgical Center locations. Higher case volume increased medical supply expense higher by 151% to $11.1 million. Operating general and administrative expense increased 199% to $31.8 million, primarily due to the increased number of procedures and secondarily from newly acquired marketing segment. The operating margin expanded 33 basis points (bps) from 32.4% in 2013 to 32.7% in 2014. Total corporate costs increased 23.1% as a result the addition of corporate staff related to acquisitions. The company's payer mix improved as the percentage of net patient revenue from private insurance and other private pay increased year-over-year from 92.4% to 97.1% as the proportion of revenue from Medicare reimbursements declined from 3.3% to 0.7%.

Net income attributable to common shareholders increased 375% from $1.416 million to $6.719 million driving diluted EPS up 275% from $0.04 to $0.14 per share. Diluted weighted average shares outstanding increased 29.6% to 48,781,348 from 37,637,662. Shares outstanding increased 39.1% to 59,418,227. The primary contributors to the increased share count were the 6,666,666 shares issued for the acquisition of Athas, a private placement of 5,568,400 shares and the exercise of 3,206,007 warrants.

During 2014, Nobilis Health raised net proceeds of approximately $6.1 million through a private placement and about $3.35 million from the exercise of stock options and warrants. Working capital improved from $8.69 million at the end of 2013 to $23.8 million on December 31, 2014.

New Plans for 2015

Management is **in the process of establishing a services segment** that will focus on providing ancillary services to Nobilis surgical facilities, allowing the company to capture high margin revenues from non-core operations, such as anesthesia, inter-operative nerve monitoring, preoperative testing and pharmacy services. Furthermore, management continues to **seek out acquisition candidates**, from distressed assets to greenfield development opportunities. The company **anticipates being listed on the NYSE in the near future** since the registration process appears to be nearly completed.

Pre-release first quarter revenues

On April 8, 2015, Nobilis Health announced that management estimates that revenues for the first quarter ending March 31, 2015 should between $33 and $35 million. Historically, Nobilis generates roughly 14% of annual revenues during the first quarter. Also, since the company is anticipated to be listed on the NYSE MKT, top-line revenue figures will no longer be released.

OVERVIEW

Nobilis Health Corp. (NHC: TSE) is a Canadian healthcare company that develops, acquires, owns and manages Ambulatory Surgical Centers (ASCs) in the United States, thus far focusing on the Dallas, Houston and Phoenix metropolitan markets. Founded in 2007, Nobilis Health attained partnership interests in two ASCs: The Palladium for Surgery in Houston (through the Palladium Partnership) and the Kirby Surgery Center in Houston (through the Kirby Partnership aka Medical Ambulatory Surgical Suites, LP). The company also provided management services for three River Oaks Pain Management facilities in Humble, Baytown and the Galleria. In early 2011, Nobilis Health acquired partnership interests in the Palladium for Surgery in Dallas, and in December 2013, formed Nobilis Health Surgery Center – Scottsdale, which became operational in June 2014. In September 2014, Nobilis Health formed a new entity (First Nobilis, LLC) to own and operate First Street Hospital and First Street Surgical Center in Houston. In general, the company's ASCs offer certain clinical specialties, including pain management, orthopedic surgery, podiatry surgery and ENT (ear, nose and throat) surgery. The company's facilities include:

- **Nobilis Health Surgery Center - Houston** Operations began in December 2003 with specialties in pain management, ENT (ear, nose and throat), podiatry and orthopedics. Formerly operating as Palladium for Surgery – Houston and Houston Microsurgery Institute, Nobilis Health acquired ownership interests from all the physician limited partners through various transactions, until in October 2013, Nobilis took over all existing operations. Located within four miles of the Texas Medical Center in Houston, the facility has 3 surgical suites, 2 treatment rooms (suitable for colonoscopy and interventional pain procedures), 7 pre-op beds and 8 post-op beds. The facility now also offers general surgery, gastrointestinal and chiropractic services. Nobilis directly **owns 100%** of Nobilis Health Surgery Center - Houston.

- **Nobilis Health Surgery Center - Dallas**. Originally opened in 2005, this facility provides healthcare services of pain management, ENT, podiatry, orthopedics and general surgery as an outpatient ambulatory surgery center. The ASC formerly operated as Microsurgery Institute of Dallas (MSID), which leased medical equipment from Palladium for Surgery – Dallas (PFSD). In October 2013, Nobilis syndicated a private placement for certain physicians to become partners of the operation. The center was folded into a new entity, NHC ASC – Dallas, in which Nobilis Health currently holds a **35.0% interest**.

- **Kirby Surgical Center - Houston** - Opened in June 2004, Nobilis Health acquired a 65.5% interest in Medical Ambulatory Surgical Suites, LP (the Kirby Surgical Center) in 2007. The facility is located less than four miles from the Texas Medical Center in Houston. Through three subsequent transactions, the company sold 40.5% of its interests to physician limited partners, effectively decreasing the company's ownership **interest** to **25.0%**. Physicians at the Center provide care in the specialties of ENT, orthopedic surgery, general surgery, interventional spine care, sports medicine and pain management.

- **Nobilis Health Surgery Center - Scottsdale** – Formed in December 2013, this ASC operates utilizing the assets from a former Brown Hand Center outpatient surgery center that were

acquired through a business combination. The Scottsdale facility opened during the first quarter of 2014. Nobilis Health directly **owns 100%** of Nobilis Health Surgery Center - Scottsdale.

- **First Nobilis Hospital LLC - Houston** – Formed in September 2014, this LLC owns and operates **First Street Hospital** and **First Street Surgical Center** in Houston, both of which are operated Nobilis Health through management agreements. Nobilis Health **owns 51%** of the LLC and First Surgical Partners Holdings, Inc. owns the remaining 49%.

Nobilis Health also operates and has ownership interests in **Elite Orthopedic Spine & Surgery Center** (35% ownership interest), **Spring Creek Urgent Care** (31.78%), **Spring Creek Imaging Center** (31.78%), both in Spring, Texas (in the metropolitan Houston area), **Willowbrook Imaging Center** (22.22%) in Houston and ***Elite Sinus Spine and Ortho*** (15%) in Houston. All told, Nobilis Health holds partnership interests in a hospital and ASCs that operate have 22 surgical suites, 6 procedure or treatment rooms, 39 pre-operation beds, 36 recovery beds and 27 overnight beds with 476 physicians with medical staff privileges.

Nobilis Health was founded by current COB, Dr. Donald Kramer, M.D., in May 2007 and was capitalized through an initial public offering (IPO) that same month. Approximately $138.7 of the $139.7 million in net proceeds were utilized to purchase a 70% indirect partnership interest in the Palladium Partnership (a limited partnership of physicians performing surgeries at the Palladium for Surgery – Houston facility) and a 60% interest in the Medical Ambulatory Surgical Suites, LP (aka Kirby Partnership consisting of a similar limited partnership of physicians performing procedures at the Kirby Surgical Center in Houston).

Dr. Donald Kramer has founded many healthcare enterprises including Omniplus Healthcare in 1995, Access Mediquip in 1996 and Palladium for Surgery-Houston in 2003. Access Mediquip was acquired by Water Street Capital in 2011 for $80 million. Nobilis Health acquired a 70% interest of the Palladium for Surgery-Houston in May 2007 (Dr. Kramer retained approximately 18% of the partnership after the transaction). Nobilis Health also acquired Dr. Kramer's 95% ownership interest of Palladium for Surgery – Dallas in January 2011.

Management's **growth strategy** entails generating organic growth through physician referrals and targeted direct-to-consumer marketing campaigns, augmented by acquisitions. Nobilis Health's **business model** revolves around establishing **strategic partnerships** with the physicians associated with Ambulatory Surgical Centers in order to drive organic growth (cases and procedures) through increasing patient flow. At the Nobilis Health Surgery Center - Dallas and the Kirby Surgical Center, physician-partners are incentivized through equity ownership. At the Nobilis Health Surgery Centers in Houston and Scottsdale, physicians are motivated through non-equity contract relationships. By aligning the economic interests of physicians with the company's organic growth strategy, not only is case volume growth bolstered through physician referrals, but also surgeons can be more easily recruited into the Nobilis Health ASC system of facilities.

To generate incremental patient flow through the company's facilities, Nobilis Health embarked upon a program of marketing campaigns, and also the acquisition of Athas Health, to drive case volume. By educating and motivating potential patients to contact the physicians at the ASCs, the marketing campaigns augment the traditional source of net patient revenue (physician referrals). Initially, the company developed the **integrated marketing campaign** to educate and motivate prospective patients to contact the company's ASCs. The first campaign was launched in the Dallas and Houston markets during the fall of 2011. Building upon that platform, the company developed the enhanced **Direct-to-Consumer marketing** program, augmenting the campaigns with dedicated websites, listings on local online directories, social media pages, YouTube videos and paid search-engine keywords. Nobilis Health launched its first direct-to-consumer marketing programs during 2013, which helped contribute to the 49% increase in net patient revenues.

Nobilis Health's **acquisition strategy** entails building a network of ASCs and other complementary healthcare facilities in metropolitan areas of the United States. Management is focused on replicating the

ASC network-building process thus far employed in the Houston market, where the healthcare facilities act as a platform for scalable growth through in-network physician referrals and lead generation from Direct-to-Consumer marketing campaigns. Potential acquisition candidates may be in-network local hospitals, ASCs, Urgent Care Centers, MRI facilities or other complementary healthcare service offices in order to leverage the effect of current marketing programs or out-of-network operations that establish platforms in new geographic locations.

The company has made several recent acquisitions. On December 12, 2013, Nobilis Health announced that the company was the **winning bidder** to acquire the **former Brown Hand Center outpatient surgery facility** in an upscale neighborhood of Phoenix, Arizona. The surgery center has four operating rooms and 27,000 square feet of floor space. The winning bid was $460,000. The bankruptcy court has delayed the closing of the sale, and to date, no material revenue has been generated by the Phoenix center. On January 21, 2014, Nobilis Health acquired the ownership interests in **two imaging centers** and **one urgent care clinic** in the **Houston area**. The total purchase price was $1.4 million comprised of $0.9 million in cash and 431,711 shares of NHC common stock valued at $0.5 million. Through the purchase of Spring Northwest Management, LLC (Katy, TX), Spring Northwest Operating, LLC (Katy, TX) and Willowbrook Imaging, LLC (Houston, TX), Nobilis Health's revenue generation platform has been augmented with additional revenue streams derived from the 19 physician partners in these facilities.

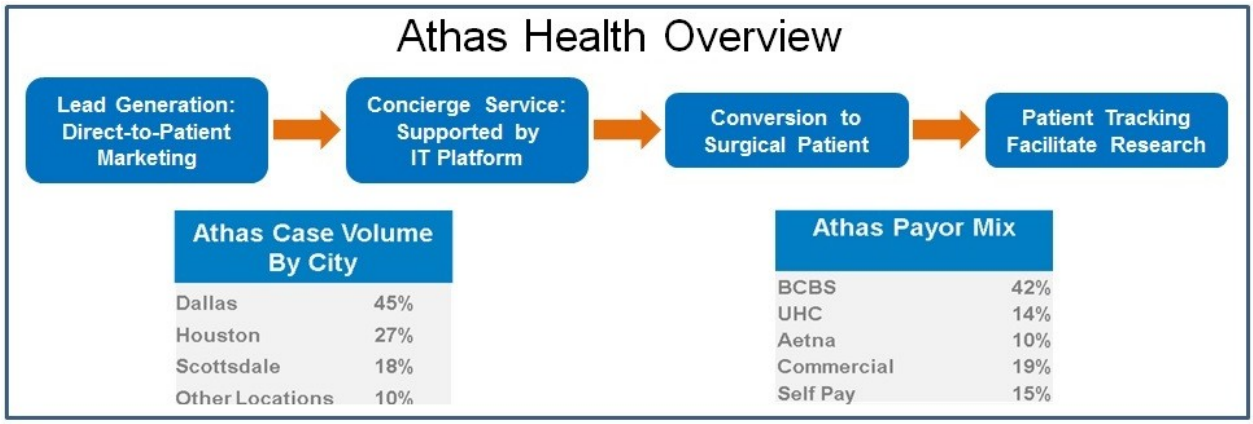
In September 2014, Nobilis Health closed a transaction with First Surgical Partners Holdings, Inc. and formed First Nobilis, LLC, which owns and operates **First Street Hospital** and **First Street Surgical Center** in Houston, Texas. **Nobilis Health owns 51% of First Nobilis LLC** and First Surgical holds the remaining 49% as a result of Nobilis Health's $US7.5 million contribution to the LLC and First Surgical's placement of its hospital and surgical center businesses into the new entity.

The creation of First Nobilis, LLC benefits both Nobilis Health and First Surgical. Immediate synergies include an in-network hospital to service patients who require more complex surgery than can be performed in ASCs and Nobilis Health's administrative and marketing expertise being utilized to manage the operations of the hospital and surgical center. Also, though not mentioned by management, there may be the possibility of attaining a pricing benefit if Nobilis Health's ASCs migrate to HOPDs (Hospital Outpatient Departments). Procedures performed at hospitals and HOPDs are under a higher reimbursement payment structure for various reasons. For example, hospitals are held to more rigorous standards of safety and quality of care, in addition to having higher overhead costs. Therefore, hospital reimbursement rates by third-party payors and Medicare and Medicaid are generally 30% to 75% higher. However, the disparity in reimbursement rates has been recognized and overtime is expected to dissipate.

In December 2014, Nobilis Health acquired **Athas Health LLC**, a Dallas-based healthcare marketing company servicing seven states, namely Texas, Arizona, Florida, Michigan, Minnesota, New Jersey and Tennessee. Athas' CEO, Christopher Lloyd became the CEO of the combined entity and Dr. Donald Kramer continues to be Chairman of the Board. Also, as part of the acquisition, Nobilis acquired 87.5% in Elite Ortho (ASC), 15.7% in Elite Sinus (ASC) and 10.7% in Elite Hospital.

The key aspect of the acquisition is that the marketing effort for Nobilis Health has been assigned to the marketing staff of Athas Health, which not only has lower cost than the legacy marketing department at Nobilis Health, but also higher effectiveness. In part this is due to the more direct and more efficient operational structure where every lead/call from the advertising campaigns is directly funneled to **in-house patient coordinators** rather than being first handled by less-knowledgeable call center operators. After collecting detailed information regarding the potential patient's symptoms and history, the patient coordinators educate them on their available treatment options and coordinate their needs with physicians and facilities, both in- and out-of-network. The patient coordinators are especially knowledgeable of the **company's branded programs** (e.g. **AccuraScope** of North American Spine, **Omega** of Migraine Treatment Centers of America and now **NueStep** and **CuraSpine** with the marketing teams being fully integrated). In addition, patient coordinators assist with insurance questions and help

schedule travel for the procedures. On average, there are 15 interactions between the patient coordinator and a patient before and after a procedure.



Historically, approximately 50% of the cost of a procedure is captured by Athas for having directed a patient to a facility (hospital or ambulatory surgical center). The remaining 50% is retained by the hospital/ASC, which pays professional fees to surgeons/anesthetists while retaining a fee for use of the facility.



The acquisition of Athas Health closed on December 1, 2014. The payment was structured with $3.0 million in cash, a $12 million promissory note by Nobilis to the sellers, the issuance 6,666,666 shares of Nobilis stock at closing and the issuance of an additional 4,666,666 shares of Nobilis stock over the next two years (2,333,333 shares on December 1, 2015 and 2,333,333 shares on December 1, 2016). With the stock being valued at $16.24 million, the total consideration was approximately $31.24 million plus the assumption of debt.

Management's primary focus is to increase net patient revenues and EBITDA through scaling direct-to-consumer marketing programs in the Houston, Dallas and Scottsdale markets, along with completing selective acquisitions.

Nobilis Health's net patient revenues are seasonal with the fourth quarter being substantially stronger than the first quarter. Since health insurance deductibles reset at the beginning of each new calendar year, potential patients tend to delay procedures in the first few months of the year.

On December 5, 2014, the company changed its name from Northstar Healthcare Inc. to **Nobilis Health Corp.** The name change will help avoid confusion concerning the company with similar named entities on the NYSE, but especially Northstar Healthcare Income Inc.

VALUATION

Valuation methodologies for health care services companies usually entail the use the price-to-revenues, price-to-EBITDA and/or P/E metrics in comparison to the industry mean and median as well as relative to the company's historic valuation range. The industry of Specialty Providers of Healthcare Services appears to be the appropriate valuation benchmark. The relatively higher multiples relative to the stock indices reflect the profitability and strong revenue profiles of specialty healthcare-related companies, such as ASCs, and the better growth potential of these relatively smaller companies.

The appropriate valuation methodologies for Nobilis Health are based on price-to-sales (P/S) and enterprise value-to-EBITDA (EV/EBITDA) due the character of the company's enterprise, namely a small-capitalization company with a revenue profile that should experience rapid growth both through internal growth as the company's Direct-to-Consumer marketing program is rolled out and through the execution of management's acquisition strategy. The growing revenue stream has already manifested itself into the positive earnings reported for the last two calendar years.

Industry Comparables	**Pr Chg YTD**	**P/E CFY**	**EPS Gr 5Yr Est**	**Price/ Book**	**Price/ Sales**	**Price/ CF**	**EV/ EBITDA**
NOBILIS HEALTH CORP.	130.3	5.3	25.0	10.4	3.6	36.4	16.3
Industry Mean	8.0	22.7	13.0	3.5	2.2	18.7	12.3
Industry Median	7.6	20.3	10.5	3.1	1.9	20.9	8.8
S&P 500	1.6	17.0	10.8	8.3	3.5	14.5	N/A
AMSURG CORP.	14.9	20.3	15.9	1.6	1.9	16.3	10.6
SURGICAL CARE AFFILIATES	4.8	16.1	10.0	2.4	1.6	10.2	8.8
MEDNAX INC.	10.7	20.7	14.6	3.2	3.1	20.2	13.4
PSYCHEMEDICS CORP.	9.5	27.4	20.0	6.9	3.1	20.9	16.5
US PHYSICAL THERAPY	14.7	26.0	20.0	3.5	2.0	22.2	11.7
UNIVERSAL HEALTH SVCS.	6.7	18.5	10.0	3.1	1.5	24.5	10.1
VCA INC.	11.0	24.3	12.5	3.8	2.3	16.6	14.7

Based on current valuation of similar specialty providers of healthcare services companies, we expect NHC to trade in a P/S valuation range between 3.1 and 1.5, which is also based on current valuations of similar companies. The top decile valuation benchmark is 3.1 price-to-sales or $6.88 per share utilizing management's guidance for expected 12-month trailing revenues from operations at a point six months from now. Since the company is integrating a significant acquisition, the resultant revenue increase should be taken into account during the valuation process, especially since Nobilis Health is expected to continue expanding its revenue base as management pursues its stated business plan of becoming a creator, owner and operator of health care networks in multiple metropolitan areas.

Comparable companies trade in an EV/EBITDA valuation range between 16.5 and 8.8. The top decile valuation benchmark is a 16.5 EV-to-EBITDA ratio or $8.15 per share. Utilizing the EV-to-EBITDA (EV/EBITDA) value, **our share price target is $8.15.**

We are optimistic about Nobilis Health. The company has experienced a dramatic increase in revenues over the last several quarters that appear to arise from its Direct-to-Consumer Marketing campaigns, and now accelerated by the acquisition of Athas Health. The company is pursuing innovative marketing methods for recruiting physicians and positioning itself as a provider of patient streams through its branding efforts.

BALANCE SHEET & PROJECTED INCOME STATEMENT

Nobilis Health Corp.

(in thousands of $US)	2007 12/31/2007	2008 12/31/2008	2009 12/31/2009	2010 12/31/2010	2011 12/31/2011	2012 12/31/2012	2013 12/31/2013	2014 12/31/2014
ASSETS								
Cash and cash equivalents	4,983	3,733	6,182	4,236	2,505	4,222	5,602	7,568
Accounts receivable	13,861	8,366	3,040	1,747	2,341	4,090	8,281	42,175
Medical supplies	507	575	502	439	488	535	787	1,412
Income tax receivable	-	-	310	87	-	-	-	-
Prepaid expenses and other assets	668	1,258	667	479	255	287	540	3,554
Total current assets	**20,019**	**13,932**	**10,701**	**6,988**	**5,589**	**9,134**	**15,210**	**54,709**
Property and equipment - net	5,561	4,658	3,552	2,222	1,875	1,308	4,833	9,087
Foreign currency exchange contract	5,467	-	-	-	-	-	-	-
Intangible assets	9,076	1,658	285	285	1,097	1,097	1,097	19,543
Goodwill	139,443	15,300	1,635	1,635	1,228	1,228	1,228	22,470
Notes receivable	-	-	-	-	-	-	150	659
Investment in associates	-	-	-	-	67	37	-	880
Other non-current assets, net	43	35	33	41	67	67	121	232
Total assets	**179,609**	**35,583**	**16,206**	**11,171**	**9,923**	**12,871**	**22,639**	**107,580**
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)								
Accounts payable	1,075	1,185	852	844	576	811	3,018	10,528
Accrued liabilities	2,653	1,395	1,522	873	1,068	1,215	1,720	9,112
Lines of credit			-	-	-	-	-	5,420
Dividends payable	1,402	659	-	-	-	-	-	-
Taxes payable	227	410	-	-	-	-	-	-
Notes payable - current portion	-	-	-	-	-	-	1,693	635
Current portion of debt			-	-	-	-	-	3,437
Current portion of capital lease obligations	-	-	-	-	-	-	49	257
Other current liabilities	-	-	19	5	125	-	43	1,485
Total current liabilities	**5,357**	**3,649**	**2,393**	**1,722**	**1,769**	**2,026**	**6,523**	**30,874**
Notes payable, less current portion	-	-	-	-	2,093	1,693	0	0
Long-term debt	-	-	-	-	-	-	-	10,582
Accrued liabilities	-	1,718	-	-	-	-	-	-
Future tax liability	3,991	-	-	-	-	-	-	-
Capital lease obligations (less current)	-	-	-	-	-	0	163	573
Foreign currency exchange contracts	-	4,750	-	-	-	-	-	-
Related party deferred distributions	-	-	2,026	-	-	-	-	-
Class B units	-	-	1,815	-	-	-	-	-
Other liabilities	28,200	3,400	5	0	0	2	0	252
Total liabilities	**37,548**	**13,517**	**6,239**	**1,722**	**3,862**	**3,721**	**6,686**	**42,281**
Non-controlling interests	**9,394**	**7,072**	**4,776**	**3,466**	**3,623**	**4,462**	**4,754**	**18,985**
Common stock	139,718	139,718	139,718	145,412	143,747	144,677	146,704	174,134
Additional paid-in-capital	-	228	812	886	1,004	1,125	4,193	5,159
Accumulated deficit	(7,051)	(124,952)	(135,339)	(140,315)	(142,313)	(141,114)	(139,698)	(132,979)
Total shareholders' equity (deficit)	132,667	14,994	5,191	5,983	2,438	4,688	11,199	46,314
Total equity (deficit)	142,061	22,066	9,967	9,449	6,061	9,150	15,953	65,299
Total liabilities and shareholders' equity	**179,609**	**35,583**	**16,206**	**11,171**	**9,923**	**12,871**	**22,639**	**107,580**
Shares outstanding	13,900,852	13,900,852	13,900,852	33,344,210	33,385,395	36,082,114	42,729,547	59,418,227

Nobilis Health Corp.

(in thousands of $US)	2007 12/31/2007	2008 12/31/2008	2009 12/31/2009	2010 12/31/2010	2011 12/31/2011	2012 12/31/2012	2013 12/31/2013	2014 12/31/2014	2015 E 12/31/2015
Net patient service revenue	**32,919**	**42,779**	**24,924**	**12,329**	**14,380**	**20,897**	**31,128**	**83,628**	**209,499**
Operating expenses									
Salaries and benefits	3,853	6,674	6,334	3,366	3,877	3,832	5,329	12,370	29,330
Medical supplies	2,528	4,038	3,206	2,365	2,476	2,391	4,423	8,686	27,235
General and administrative expenses	4,136	7,761	10,518	2,821	4,062	4,488	10,648	24,376	78,829
Provision for doubtful accounts	-	5,735	1,091	775	912	145	-	50	0
Depreciation and amortization	1,079	1,783	1,406	1,408	1,047	779	650	1,355	2,095
Total operating expenses	**11,596**	**25,991**	**22,555**	**10,735**	**12,374**	**11,635**	**21,050**	**46,837**	**137,488**
Operating income	**21,323**	**16,788**	**2,369**	**1,594**	**2,006**	**9,262**	**10,078**	**36,791**	**72,010**
Salaries and benefits	-	-	-	1,638	1,730	1,600	2,285	2,445	4,169
General and administrative	-	-	-	3,361	1,964	1,681	2,228	2,747	4,275
Legal expenses	-	-	-	3,420	242	553	808	1,076	1,336
Amortization	-	-	-	34	38	71	81	110	123
Total corporate expenses	**0**	**0**	**0**	**8,453**	**3,974**	**3,905**	**5,402**	**6,378**	**9,903**
Other income (expense)									
Gain (loss) on bargain purchase	-	-	-	-	-	-	2,392	-	-
Distributions, other liabilities, non-controlling int.	(1,088)	(1,384)	(320)	-	-	-	-	-	-
Withholding taxes (expense)	(857)	(853)	-	-	-	-	-	-	-
Chg. In fair value, other liabilities, non-controlling int.	(10,236)	24,800	1,585	-	-	-	-	-	-
Class B units (distributions & gains)	-	-	-	2,138	-	-	-	-	-
Goodwill and intangible (impairment)	-	(131,141)	(14,880)	-	-	-	-	-	-
Gain (loss) on foreign currency	6,003	(8,809)	3,886	50	45	-	-	-	-
State franchise tax (expense)	(225)	(301)	(94)	(76)	(77)	(119)	(177)	(514)	(1,278)
Other income (expense)	82	72	(234)	286	510	3	1	(538)	(701)
Total other (income) expense	**(6,321)**	**(117,616)**	**(10,057)**	**2,398**	**478**	**(116)**	**2,216**	**(1,052)**	**(1,979)**
Net Income	**15,002**	**(100,828)**	**(7,688)**	**(4,461)**	**(1,490)**	**5,241**	**6,892**	**29,361**	**60,128**
Current income tax expense (recovery)	227	459	(685)	-	-	-	-	-	-
Future income tax expense	3,991	(3,991)	0	-	-	-	-	-	-
Total income tax expense (recovery)	4,218	(3,532)	(685)	0	0	0	0	0	0
Net income attributable to noncontrolling int.	**7,624**	**6,910**	**3,384**	**515**	**685**	**4,042**	**5,476**	**18,034**	**24,052**
Net gain (loss) attributable to Company	**3,160**	**(104,206)**	**(10,387)**	**(4,976)**	**(2,175)**	**1,199**	**1,416**	**11,327**	**36,076**
Basic income (loss) per share	$0.23	($7.50)	($0.75)	($0.26)	($0.07)	$0.03	$0.04	$0.25	$0.59
Diluted income (loss) per share	**$0.23**	**($7.50)**	**($0.75)**	**($0.26)**	**($0.07)**	**$0.03**	**$0.04**	**$0.23**	**$0.48**
Basic weighted average shares outstanding	13,749,756	13,900,852	13,900,852	18,801,644	33,350,980	35,461,911	36,793,950	45,180,390	60,714,877
Diluted weighted average shares outstanding	13,749,756	13,900,852	13,900,852	18,801,644	33,350,980	35,764,295	37,637,662	48,666,904	75,649,164

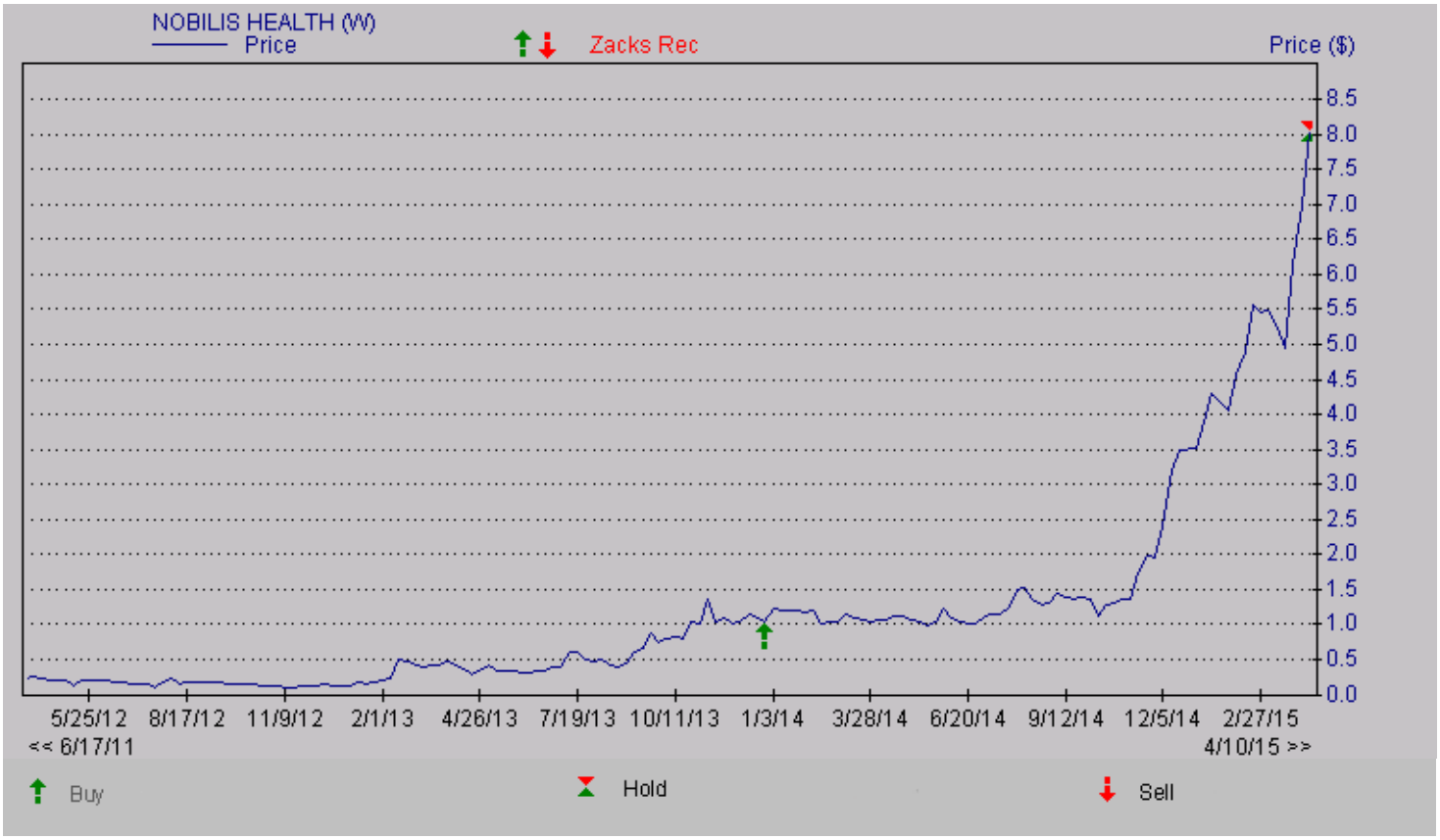
Nobilis Health Corp.

(in thousands of $US)	2013 12/31/2013	2014 1Q	2014 2Q	2014 3Q	2014 4Q	2014 12/31/2014
Net patient service revenue	31,128	12,121	15,114	17,193	36,489	80,917
Contracted marketing revenues	-				2,171	2,171
Factoring revenues	-				941	941
Total revenue	**31,128**	**12,121**	**15,114**	**17,193**	**39,601**	**84,029**
Cost of goods sold (Athas)	-				201	**201**
Operating expenses						
Salaries and benefits	5,329	1,915	2,003	2,964	5,051	11,933
Medical supplies	4,423	1,564	2,405	2,267	4,858	11,094
General and administrative expenses	10,648	5,906	6,006	6,164	13,715	31,791
Provision for doubtful accounts	-	-	-	-	-	0
Depreciation and amortization	650	298	305	352	574	1,529
Total operating expenses	**21,050**	**9,683**	**10,719**	**11,747**	**24,198**	**56,347**
Operating income	**10,078**	**2,438**	**4,395**	**5,446**	**15,202**	**27,481**
Salaries and benefits	2,285	559	470	636	722	2,387
General and administrative	2,228	552	689	706	2,135	4,082
Legal expenses	808	271	351	204	(760)	66
Amortization	81	32	29	26	27	114
Total corporate expenses	**5,402**	**1,414**	**1,539**	**1,572**	**2,124**	**6,649**
Other income (expense)						
Gain (loss) on bargain purchase	2,392	-	-	-	-	-
State franchise tax (expense)	(177)	(80)	(158)	(94)	(148)	(480)
Other income (expense)	1	(385)	35	(124)	(97)	(571)
Total other (income) expense	**2,216**	**(465)**	**(123)**	**(218)**	**(245)**	**(1,051)**
Net Income	**6,892**	**559**	**2,733**	**3,656**	**12,833**	**19,781**
Total income tax expense (recovery)	0	0	0	0	0	0
Net income attributable to noncontrolling int.	**5,476**	**1,359**	**2,505**	**2,576**	**6,622**	**13,062**
Net gain (loss) attributable to shareholders	**1,416**	**(800)**	**228**	**1,080**	**6,211**	**6,719**
Basic income (loss) per share	$0.04	($0.02)	$0.01	$0.02	$0.11	$0.14
Diluted income (loss) per share	**$0.04**	**($0.02)**	**$0.01**	**$0.02**	**$0.10**	**$0.14**
Basic weighted average shares outstanding	36,793,950	43,190,620	43,411,318	44,591,772	55,905,485	46,517,815
Diluted weighted average shares outstanding	37,637,662	43,190,620	43,641,426	45,711,687	65,312,700	48,781,348

Northstar Healthcare Inc.

(in thousands of $US)	2014 E 12/31/2014	2015 1Q E	2015 2Q E	2015 3Q E	2015 4Q E	2015 E 12/31/2015
Net patient service revenue	**80,917**	**34,000**	**40,330**	**49,091**	**86,078**	**209,499**
Operating expenses						
Salaries and benefits	11,933	4,760	5,646	6,873	12,051	29,330
Medical supplies	11,094	4,420	5,243	6,382	11,190	27,235
General and administrative expenses	31,791	15,300	15,729	17,673	30,127	78,829
Provision for doubtful accounts	0	-	-	-	-	0
Depreciation and amortization	1,529	340	403	491	861	2,095
Total operating expenses	**56,347**	**24,820**	**27,021**	**31,418**	**54,229**	**137,488**
Operating income	**24,570**	**9,180**	**13,309**	**17,673**	**31,849**	**72,010**
Salaries and benefits	2,387	677	802	977	1,713	4,169
General and administrative	4,082	694	823	1,002	1,757	4,275
Legal expenses	66	217	257	313	549	1,336
Amortization	114	20	24	29	51	123
Total corporate expenses	**6,649**	**1,607**	**1,906**	**2,321**	**4,069**	**9,903**
Other income (expense)						
Gain (loss) on bargain purchase	-	-	-	-	-	-
State franchise tax (expense)	(480)	(207)	(246)	(299)	(525)	(1,278)
Other income (expense)	(571)	(385)	(128)	(124)	(64)	(701)
Total other (income) expense	**(1,051)**	**(592)**	**(374)**	**(423)**	**(589)**	**(1,979)**
Net Income	**16,870**	**6,980**	**11,028**	**14,929**	**27,191**	**60,128**
Total income tax expense (recovery)	0	0	0	0	0	0
Net income attributable to noncontrolling int.	**13,062**	**3,141**	**4,853**	**6,270**	**9,789**	**24,052**
Net gain (loss) attributable to shareholders	**3,808**	**3,839**	**6,176**	**8,659**	**17,402**	**36,076**
Basic income (loss) per share	$0.08	$0.06	$0.10	$0.14	$0.28	$0.59
Diluted income (loss) per share	**$0.08**	**$0.05**	**$0.08**	**$0.11**	**$0.22**	**$0.48**
Basic weighted average shares outstanding	46,517,815	59,400,000	60,291,000	61,195,365	61,973,143	60,714,877
Diluted weighted average shares outstanding	48,781,348	73,600,000	75,072,000	76,573,440	77,351,218	75,649,164

HISTORICAL ZACKS RECOMMENDATIONS



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Sell/Underperform: The analyst expects the company will underperform the broader U.S. Equity market over the next one to two quarters.

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