Zacks Small-Cap Research

January 13, 2015

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# Nobilis Health Corp. (T.NHC - TSE)

**T.NHC:** Acquisition of Athas Heath is a game changer. Price target increased significantly to $5.50.

| | |
|---|---|
| **Current Recommendation** | **Outperform** |
| Prior Recommendation | Neutral |
| Date of Last Change | 01/20/2014 |
| Current Price (01/13/14) | $3.98 |
| **Six- Month Target Price** | **$5.50** |

## 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 top-line going forward, especially the addition of the Athas marketing platform. Management is implementing a growth strategy, which includes making acquisitions, expanding geographically and advancing Direct-to-Consumer marketing programs. We reiterate our Outperform rating.

## SUMMARY DATA

| | |
|---|---|
| **52-Week High** | **4.01** |
| **52-Week Low** | **0.97** |
| **One-Year Return (%)** | **234.45** |
| **Beta** | **-0.24** |
| **Average Daily Volume (shrs.)** | **169,098** |
| **Shares Outstanding (million)** | **59.4** |
| **Market Cap. ($CDN million)** | **236.4** |
| **Short Interest Ratio (days)** | **1.9** |
| **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** | **44.2** |
| **P/E using 2015 Estimate** | **5.3** |
| **P/E using 2016 Estimate** | **3.5** |
| **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 | 39.2 E | 83.6 E |
| 2015 | 30.4 E | 40.3 E | 49.1 E | 86.1 E | 205.9 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 | $0.17 E | $0.23 E |
| 2015 | $0.06 E | $0.11 E | $0.15 E | $0.42 E | $0.75 E |
| 2016 | | | | | $1.15 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.
- Management's **growth strategy** entails generating organic growth through physician referrals and targeted direct-to-consumer marketing campaigns, augmented by acquisitions.
- Nobilis Health has developed an enhanced **Direct-to-Consumer marketing program** model designed to educate and motivate prospective patients to contact the company's ASCs. The company launched its first direct-to-consumer marketing programs during 2013, which helped contribute to the 169% increase in net patient revenues in 2014.
- The Direct-to-Consumer marketing effort 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 aka **Integrated Marketing Services**. Recent acquisitions are bolstering top-line growth.
- Management aspires to list NHC to the NYSE. The process is underway with Form 10-12G having been filed with the SEC. The company anticipates the listing to occur during the first quarter of 2015.
- The company changed its name to **Nobilis Health Corp.** in December 2014.
- We reiterate our Outperform rating.

## RECENT NEWS

***Company Name Changed to Nobilis Health Corp.***

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.

***Pre-announce Financial Results Fourth Quarter 2014 and 2015 Guidance***

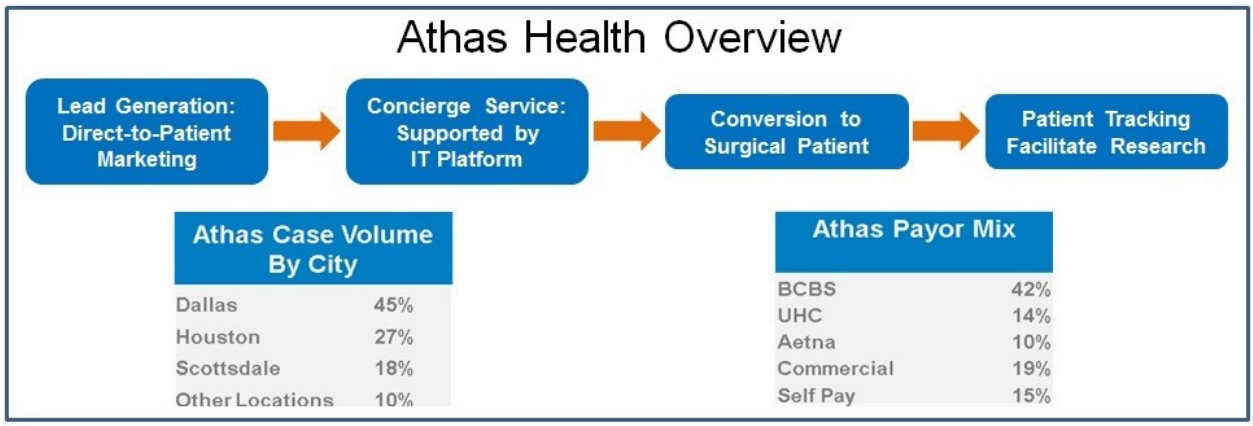
On January 12, 2015, management pre-announced estimated sales for the fourth quarter ending December 31, 2014. **Fourth quarter's sales** are estimated to be **$39.2 million**, up approximately 109% versus $13.5 million reported in the comparable period ending December 31, 2013. Fourth quarter revenue significantly exceeded management's forecasts of $30 million. The top-line growth was primarily driven by effective marketing programs, especially campaigns for NueStep and CuraSpine. **Management anticipates generating revenues of $205 million and EBITDA of $41 million during 2015**, which

include the integration and consolidation of Athas, along with rolling out marketing programs in several cities.

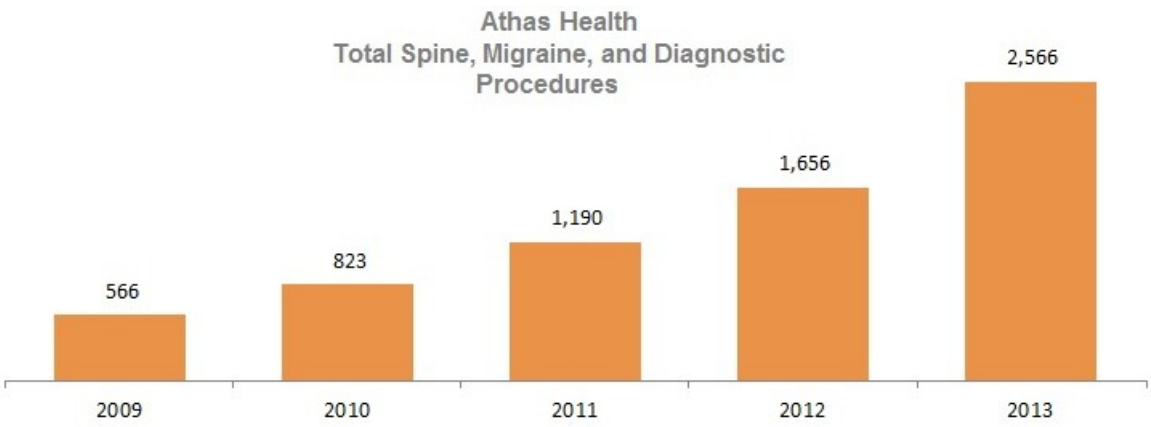
***Acquisition of Athas Health LLC***

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.

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.



Athas' revenue for 2014 is estimated to be approximately $40 million, a 39% increase from the $28.6 million generated in 2013. Therefore, in 2015 at least $40 million is expected to be captured by Nobilis Health through the acquisition of Athas. In addition, management anticipates that the surgical facilities of Nobilis Health will receive a large share (approximately 70%) of the leads from Athas, especially in Texas and Arizona, providing $33 million in top-line synergies. Therefore, **the revenue base of Nobilis Health should expand by approximately $72 million through the acquisition of Athas Health.**

The acquisition of Athas Health closed on November 28, 2014. The payment was structured with $3 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 November 28, 2015 and 2,333,333 shares on November 28, 2016).

***Financial results for third quarter 2014***

On November 13, 2014, Nobilis Health (NHC.TO) reported financial results for the third quarter ending September 30, 2014. Net patient revenues continue to grow significantly, driven by the company's marketing campaigns (especially for bariatric procedures) and the contributions from the expanded operational platform, which now includes two imaging centers and one urgent care clinic in Houston and the company's majority interest in First Nobilis (the limited liability company holding the operating entities for First Surgical Hospital and First Street Surgery Center, also in Houston). Nobilis Health obtained its 51% ownership interest in First Nobilis LLC by contributing $7.5 million cash, which was attained through a recent brokered private placement and the accelerated exercise of warrants.

Looking forward, the fourth quarter is benefitting from not only the expected seasonal increase of net patient revenue, but also the expanded platform. In the third quarter press release, management estimated that net patient services revenues for the month of October alone are $10.1 million.

During the third quarter, net patient service revenue increased 125% to $17.19 million compared to $7.64 million in the third quarter of 2013, primarily due to an increase in total case volume, which was driven by marketing campaigns that increased the number of bariatric surgeries performed by 365% to 293 cases from 63 cases in the comparable quarter last year. Net patient service revenue was slightly above the company's pre-announcement of between $16 and $17 million, which was released on October 30th.

**Nobilis Health Corp.**

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | Jan-Sept 2014 |
|---|---|---|---|---|---|---|---|
| Private insurance and other private pay | 91.4% | 87.1% | 82.5% | 86.5% | 91.0% | 95.8% | 96.3% |
| Workers compensation | 4.9% | 8.1% | 12.4% | 8.6% | 5.3% | 2.4% | 2.7% |
| Medicare | 1.5% | 2.7% | 5.1% | 4.9% | 3.7% | 1.8% | 1.0% |
| Other | 2.2% | 2.1% | 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% |

The comparative operating statistics provided by the company indicated that total cases improved 22.7% to 1,649 from 1,344 in the comparable quarter last year, driven by increases general surgery (+168%), pain management (+13.1%) and Ear, Nose & Throat (+36.7%). Procedure volume increased 11.0% to 5,407 versus 4,872 last year. The number of general surgery cases and procedures, which includes bariatric surgeries, continued to increase significantly as a percentage of total cases and procedures, respectively. General surgery rose to 27.2% of total cases and 19.3% of total procedures in the third quarter in contrast to comprising 12.4% of total cases and 7.1% of total procedures in the third quarter of 2013. Payer mix improved with 97.4% of net patient service revenue derived from private payors (insurance and other), up from 92.4% in the comparable quarter last year. The percentage attributable to Medicare reimbursements declined from 2.8% to 1.0%.

| Nobilis Health Corp. | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Number of Cases** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **1Q-2014** | **2Q-2014** | **3Q-2014** |
| Pain Management | 4,855 | 3,074 | 2,540 | 2,799 | 2,884 | 2,887 | 621 | 779 | 787 |
| Orthopedics | 2,330 | 1,871 | 1,171 | 858 | 694 | 724 | 169 | 225 | 171 |
| Podiatry | 607 | 247 | 21 | 346 | 156 | 286 | 75 | 77 | 64 |
| Gastro-intestinal | 793 | 420 | 5 | - | 70 | 269 | 18 | 20 | 14 |
| General Surgery | 423 | 393 | 331 | 469 | 353 | 787 | 456 | 415 | 448 |
| GYN | - | - | - | - | - | 77 | 26 | 1 | 1 |
| Ear, Nose, Throat (E.N.T.) | 643 | 471 | 265 | 243 | 311 | 466 | 134 | 129 | 164 |
| Total | 9,651 | 6,476 | 4,333 | 4,715 | 4,468 | 5,496 | 1,499 | 1,646 | 1,649 |

| Nobilis Health Corp. | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Percentage of Cases** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **1Q-2014** | **2Q-2014** | **3Q-2014** |
| Pain Management | 50.3% | 47.5% | 58.6% | 59.4% | 64.5% | 52.5% | 41.4% | 47.3% | 47.7% |
| Orthopedics | 24.1% | 28.9% | 27.0% | 18.2% | 15.5% | 13.2% | 11.3% | 13.7% | 10.4% |
| Podiatry | 6.3% | 3.8% | 0.5% | 7.3% | 3.5% | 5.2% | 5.0% | 4.7% | 3.9% |
| Gastro-intestinal | 8.2% | 6.5% | 0.1% | - | 1.6% | 4.9% | 1.2% | 1.2% | 0.8% |
| General Surgery | 4.4% | 6.1% | 7.6% | 9.9% | 7.9% | 14.3% | 30.4% | 25.2% | 27.2% |
| GYN | - | - | - | - | - | 1.4% | 1.7% | 0.1% | 0.1% |
| Ear, Nose, Throat (E.N.T.) | 6.7% | 7.3% | 6.1% | 5.2% | 7.0% | 8.5% | 8.9% | 7.8% | 9.9% |
| Total | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

| Nobilis Health Corp. | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Procedures** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **1Q-2014** | **2Q-2014** | **3Q-2014** |
| Pain Management | 28,576 | 14,942 | 10,704 | 11,098 | 9,838 | 11,928 | 2,564 | 3,046 | 2,955 |
| Orthopedics | 5,996 | 4,623 | 2,756 | 2,191 | 2,737 | 2,417 | 444 | 725 | 494 |
| Podiatry | 2,490 | 1,140 | 56 | 1,686 | 703 | 1,566 | 354 | 474 | 392 |
| Gastro-intestinal | 956 | 651 | 7 | - | 97 | 400 | 23 | 27 | 17 |
| General Surgery | 966 | 823 | 719 | 1,081 | 1,190 | 1,689 | 764 | 958 | 1,045 |
| GYN | - | - | - | - | - | 98 | 33 | 3 | 2 |
| Ear, Nose, Throat (E.N.T.) | 3,337 | 1,998 | 980 | 917 | 1,014 | 1,620 | 448 | 457 | 502 |
| Total | 42,321 | 24,177 | 15,222 | 16,973 | 15,579 | 19,718 | 4,630 | 5,690 | 5,407 |

| Nobilis Health Corp. | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Percentage of Cases** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **1Q-2014** | **2Q-2014** | **3Q-2014** |
| Pain Management | 67.5% | 61.8% | 70.3% | 65.4% | 63.1% | 60.5% | 55.4% | 53.5% | 54.7% |
| Orthopedics | 14.2% | 19.1% | 18.1% | 12.9% | 17.6% | 12.3% | 9.6% | 12.7% | 9.1% |
| Podiatry | 5.9% | 4.7% | 0.4% | 9.9% | 4.5% | 7.9% | 7.6% | 8.3% | 7.2% |
| Gastro-intestinal | 2.3% | 2.7% | 0.0% | - | 0.6% | 2.0% | 0.5% | 0.5% | 0.3% |
| General Surgery | 2.3% | 3.4% | 4.7% | 6.4% | 7.6% | 8.6% | 16.5% | 16.8% | 19.3% |
| GYN | - | - | - | - | - | 0.5% | 0.7% | 0.1% | 0.0% |
| Ear, Nose, Throat (E.N.T.) | 7.9% | 8.3% | 6.4% | 5.4% | 6.5% | 8.2% | 9.7% | 8.0% | 9.3% |
| Total | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

Operating salaries and benefits increased 122.5% to $2.96 million, primarily due to increased staffing at the Microsurgery Institute – Dallas (MSID) location and the opening of the Nobilis Health Surgery Center – Scottsdale (NHSC-S) facility. Higher case volume across all Nobilis facilities drove medical supply expense higher by 166% to $2.27 million. Operating general and administrative expense increased 106% to $6.16 million, primarily due to higher marketing expense and also from increased physician contracting cycle expenses.

Nobilis Health generated EBITDA of $1.5 million during the third quarter versus $(0.1) million in the corresponding period last year. Working capital increased sequentially from $9.08 million at the end of the second quarter to $21.4 million on September 30, 2014.

Net income attributable to common shareholders was $1.08 million ($0.02 per diluted share) versus a loss of $339 thousand (-$0.01 per diluted share) in the comparable quarter last year. Diluted weighted average shares outstanding increased 4.7% sequentially to 45,711,687 from 43,641,426.

## 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 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** (87.5% ownership interest), **Spring Creek Urgent Care** (13%), **Spring Creek Imaging Center** (22%), both in Spring, Texas (in the metropolitan Houston area) and **Willowbrook Imaging Center** (13%) in Houston. All told, Nobilis Health holds partnership interests in ASCs that operate 22 operating/procedure rooms with over 250 surgeons on staff.

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.

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.

## SUMMARY OF CORPORATE HISTORY

Nobilis Health has a complex history that includes difficulties in connection with a rapidly changing reimbursement environment in the first two years of its existence, which were exacerbated by a conflict with a major insurer. As a result of these difficulties, the share price dropped dramatically, from an all-time high of $18.30 in 2007 to as low as $0.10 in late 2012. In November 2013, the company's share price rebounded to above $1.00, primarily due to a rebound in the company's net patient revenues and EPS driven by syndication/re- syndication of partnerships to motivate physician partners, consumer-centric marketing campaigns and selective acquisitions.

***Historical Timeline***

- March 16, 2007 — Nobilis Health incorporated in British Columbia
- May 17, 2007 — Nobilis Health completes IPO of 12,087,698 shares at $12.25
- May-June 2007 — Acquire 70% interest in **The Palladium for Surgery – Houston** and 60% interest in the **Kirby Surgery Center** in Houston for $138.7 million
- June 5, 2007 — Overallotment of IPO exercised for 1,813,154 shares

***Historical Timeline (continued)***

- September 2008 Stephen Linehan appointed CEO
- February 2009 Dr. Kramer makes tender offer for Nobilis Health
- October 27, 2010 Dr. Kramer & Donna Alexander rejoined Nobilis as CEO and COO
- November 1, 2010 MSIH begins utilizing Palladium Partnership's facility
- January 1, 2011 Acquire **The Palladium for Surgery - Dallas** (PFSD) for $2.2 million
- Spring 2011 Launch first **integrated marketing campaign** (colonoscopy)
- September 2011 Launch NueStep podiatry integrated marketing campaign
- 2013 Launch **Direct-to-Consumer marketing programs** for Curaspine and NueStep in Houston
- December 12, 2013 Win bid for former Brown Hand Center outpatient surgery facility in Phoenix
- January 21, 2014 Acquire 2 imaging centers & 1 urgent care clinic in **Houston** area
- June 2014 Open **Nobilis Health Surgery Center - Scottsdale**
- August 26, 2014 Files Form 10 Registration Statement in preparation for listing on the NYSE
- September 30, 2014 Form First Nobilis, LLC to own and operate **First Street Hospital** and **First Street Surgical Center** in **Houston**
- November 28, 2014 Acquire **Athas Health LLC**
- December 5, 2014 Company name changed to **Nobilis Health Corp.**

***Business Model with Value-Added Integrated Marketing Campaigns***

In 2011, Nobilis Health began implementing several initiatives designed to strengthen the company's position by providing not only capital, facilities and business expertise, but also patient flow via direct-to-consumer marketing campaigns. Nobilis Health identified a target audience of highly symptomatic patients suffering from nerve entrapment and developed an **integrated marketing campaign** to educate and motivate prospective patients to communicate with the company's facilities. The campaign was launched in the Dallas and Houston markets during the fall of 2011.

Specifically, each integrated marketing campaign is designed to provide patients with knowledge of the awareness of the disease, the recognition of symptoms, the availability of treatment options and the option of a dialogue with treatment professionals. Once a patient commits to obtaining more information, the company's **call centers** and patient relationship experts actively engage with potential patients to help establish an understanding of the company's healthcare services and to motivate them to schedule appointments at one of the company's facilities. The marketing program employed a **mix of traditional media** (television, print and radio) along with toll-free numbers. In addition, local general practitioner referrals are encouraged with the use of a referral coordinator, fax referral and a patient referral card.

***NueStep Podiatry Integrated Marketing Campaign*** – Initiated during September 2011 in Dallas and Houston, the NueStep podiatry integrated marketing campaign focuses on foot and ankle pain caused by nerve entrapment, which is treated by a procedure available exclusively at Nobilis Health. Marketing objectives include education on nerve entrapment, recognition of symptoms, education on the availability of advanced procedures to decompress entrapped nerves, and empowering patients to have productive discussions with treatment professionals. In order to ensure a high conversion of inquiries to procedures, the company hired a full-time podiatrist and staff to directly handle prospect calls and manage the program. The campaign is comprised of all marketing modalities, including a website at nuestep.com that was set up in October 2011. NueStep Podiatry campaigns continue to be launched today in Houston, Dallas and Phoenix.

In early 2012, the company began implementing the integrated marketing approach at the Palladium for Surgery - Houston facility. The partners of the Microsurgery Institute Houston were bought out by the company to provide the company with freedom to operate the facility directly and to obtain the full financial benefits of 100% ownership.

During 2012, Nobilis Health developed an innovative **Direct-to-Consumer Marketing Campaign** building upon integrated marketing platform developed in 2011.The Direct-to-Consumer marketing program consists of an **on-line presence** with a dedicated websites, listings on local **online directories** (such as Yelp, Yahoo Local Directory, Google Local Directory and Yellowpages.com), **social media** pages (Facebook and Twitter), informative YouTube videos and paid search-engine keywords (google, MSN and Yahoo). In January 2013, Nobilis Health hired a chief marketing officer (and later an external medical marketing consulting firm) and began a series of therapeutic area focused direct-to-consumer campaigns that are designed to achieve critical patient educational objectives and drive brand awareness.

*The Houston Colonoscopy Center Direct-to-Consumer Marketing Campaign* – A colonoscopy marketing campaign was launched in the spring of 2013 to increase the awareness on importance of colonoscopies and to better educate patients about the importance of colon cancer screening, along with informing them of screening guidelines. The program is bolstered by an on-line presence with a website (houstoncoloncenter.com). The colonoscopy campaign was performed in close coordination with a second campaign on hemorrhoid treatment.

***CuraSpine Direct-to-Consumer Marketing Campaign*** – The online presence of CuraSpine at curaspineprocedure.com was launched in August 2013. CuraSpine is a minimally invasive, rapid recovery protocol for treating herniated disks, spinal stenosis, degenerative disks, facet disease, and arthritis among other maladies.




***Bariatric Campaign Direct-to-Consumer Marketing Campaign*** – Based on the successes in Houston, Nobilis Health initiated a similar marketing program promoting bariatric and spine surgery at the Dallas facility. Weight loss surgery (aka bariatric surgery) includes a variety of procedures designed to help obese patients lose weight. Once patients lose a lot of weight, they usually want plastic/reconstructive surgery to help remove the excess of skin or body contouring to enhance their achievements.

The marketing-enhanced, direct-to-consumer business model not only generates an on-going revenue stream, but also creates an opportunity for the company to motivate physicians and other partners to enter into partnerships for the delivery of ASC services. Through its marketing campaigns, Nobilis can not only deliver patient flow, but also handle the scheduling services to surgeons.

## RISKS

- CEO Dr. Donald Kramer holds considerable control over Nobilis Health and its strategy as a result of Dr. Kramer holding a $1.7 million 6.25% promissory note related to the company's purchase of his 95% interest of Palladium for Surgery - Dallas in January 2011. The relationship is further extended by Nobilis Health having entered into a management and cost sharing agreement (for support the company's marketing campaigns) with Northstar Pain Management P.A., which is owned by Dr. Kramer. Also, Dr. Kramer owns 17,144,482 shares of Healthcare Ventures, Ltd., which holds significant interests in Northstar Healthcare Subco LLC and Northstar Healthcare Acquisitions LLC.
- The privately-held ASCs that were combined to form Nobilis Health in 2007 followed a business model based on aggressive billing practices. The dramatic revenue decline that occurred shortly

after the company's IPO, to a significant extent, can be attributed to payer pushback against those practices.

- Physician recruitment and maintenance remains a key variable for success. In 2008, the company's difficulties with payors at the Palladium for Surgery Houston were largely associated with financial terms offered to non-partner physicians to induce them to perform surgery at the facility.

## 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.** | 13.7 | 5.3 | 25.0 | 7.1 | 2.2 | 18.8 | 17.5 |
| Industry Mean | 1.2 | 19.1 | 12.7 | 3.1 | 2.0 | 17.3 | 11.9 |
| Industry Median | 0.0 | 17.1 | 10.8 | 2.9 | 1.9 | 17.3 | 11.0 |
| S&P 500 | -1.5 | 16.2 | 10.8 | 5.1 | 3.4 | 15.9 | N/A |
| AMSURG CORP. | -2.5 | 17.1 | 15.9 | 1.4 | 1.9 | 16.5 | 10.8 |
| SURGICAL CARE AFFILIATES | -1.3 | 14.5 | 11.0 | 2.4 | 1.5 | 14.3 | 11.0 |
| MEDNAX INC. | -1.1 | 18.8 | 14.3 | 2.6 | 2.6 | 20.6 | 12.4 |
| PSYCHEMEDICS CORP. | 0.7 | 13.9 | 20.0 | 6.4 | 2.8 | 17.3 | 15.4 |
| US PHYSICAL THERAPY | -5.8 | 20.5 | 20.0 | 3.0 | 1.7 | 20.3 | 10.2 |
| UNIVERSAL HEALTH SVCS. | -4.5 | 16.4 | 10.2 | 2.9 | 1.4 | 13.2 | 10.1 |
| VCA INC. | 2.6 | 22.6 | 12.5 | 3.3 | 2.3 | 19.2 | 13.6 |

Based on current valuation of similar specialty providers of healthcare services companies, we expect NHC to trade in a P/S valuation range between 2.8 and 1.4, which is also based on current valuations of similar companies. The mid-second quartile valuation benchmark is 2.3 price-to-sales or $4.88 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 15.4 and 10.1. The mid-second quartile valuation benchmark is a 13.4 EV-to-EBITDA ratio or $6.15 per share. Utilizing an average of both P/S and EV-to-EBITDA (EV/EBITDA) values, **our share price target is $5.50.**

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<br>12/31/2007 | 2008<br>12/31/2008 | 2009<br>12/31/2009 | 2010<br>12/31/2010 | 2011<br>12/31/2011 | 2012<br>12/31/2012 | 2013<br>12/31/2013 | 2014 E<br>12/31/2014 | 2015 E<br>12/31/2015 |
|---|---|---|---|---|---|---|---|---|---|
| **Net patient service revenue** | **32,919** | **42,779** | **24,924** | **12,329** | **14,380** | **20,897** | **31,128** | **83,628** | **205,923** |
| **Operating expenses** | | | | | | | | | |
| Salaries and benefits | 3,853 | 6,674 | 6,334 | 3,366 | 3,877 | 3,832 | 5,329 | 12,370 | 28,829 |
| Medical supplies | 2,528 | 4,038 | 3,206 | 2,365 | 2,476 | 2,391 | 4,423 | 8,686 | 17,149 |
| General and administrative expenses | 4,136 | 7,761 | 10,518 | 2,821 | 4,062 | 4,488 | 10,648 | 24,376 | 52,374 |
| 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 | 2,059 |
| **Total operating expenses** | **11,596** | **25,991** | **22,555** | **10,735** | **12,374** | **11,635** | **21,050** | **46,837** | **100,412** |
| **Operating income** | **21,323** | **16,788** | **2,369** | **1,594** | **2,006** | **9,262** | **10,078** | **36,791** | **105,511** |
| Salaries and benefits | - | - | - | 1,638 | 1,730 | 1,600 | 2,285 | 2,445 | 4,097 |
| General and administrative | - | - | - | 3,361 | 1,964 | 1,681 | 2,228 | 2,747 | 4,203 |
| Legal expenses | - | - | - | 3,420 | 242 | 553 | 808 | 1,076 | 1,313 |
| Amortization | - | - | - | 34 | 38 | 71 | 81 | 110 | 121 |
| **Total corporate expenses** | **0** | **0** | **0** | **8,453** | **3,974** | **3,905** | **5,402** | **6,378** | **9,734** |
| **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) | (1,256) |
| 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)** | **(1,957)** |
| **Net Income** | **15,002** | **(100,828)** | **(7,688)** | **(4,461)** | **(1,490)** | **5,241** | **6,892** | **29,361** | **93,820** |
| 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** | **36,861** |
| Net gain (loss) attributable to Company | **3,160** | **(104,206)** | **(10,387)** | **(4,976)** | **(2,175)** | **1,199** | **1,416** | **11,327** | **56,959** |
| Basic income (loss) per share | $0.23 | ($7.50) | ($0.75) | ($0.26) | ($0.07) | $0.03 | $0.04 | $0.25 | $0.94 |
| **Diluted income (loss) per share** | **$0.23** | **($7.50)** | **($0.75)** | **($0.26)** | **($0.07)** | **$0.03** | **$0.04** | **$0.23** | **$0.75** |
| 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) | 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 | 3Q 2014 09/30/2014 |
|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | |
| Cash and cash equivalents | 4,983 | 3,733 | 6,182 | 4,236 | 2,505 | 4,222 | 5,602 | 13,289 |
| Accounts receivable | 13,861 | 8,366 | 3,040 | 1,747 | 2,341 | 4,090 | 8,281 | 18,845 |
| Medical supplies | 507 | 575 | 502 | 439 | 488 | 535 | 787 | 1,417 |
| Income tax receivable | - | - | 310 | 87 | - | - | - | - |
| Prepaid expenses and other assets | 668 | 1,258 | 667 | 479 | 255 | 287 | 540 | 1,262 |
| **Total current assets** | **20,019** | **13,932** | **10,701** | **6,988** | **5,589** | **9,134** | **15,210** | **34,813** |
| Property and equipment - net | 5,561 | 4,658 | 3,552 | 2,222 | 1,875 | 1,308 | 4,833 | 7,957 |
| Foreign currency exchange contract | 5,467 | - | - | - | - | - | - | - |
| Intangible assets | 9,076 | 1,658 | 285 | 285 | 1,097 | 1,097 | 1,097 | 5,992 |
| Goodwill | 139,443 | 15,300 | 1,635 | 1,635 | 1,228 | 1,228 | 1,228 | 3,178 |
| Note receivable | - | - | - | - | - | - | 150 | 150 |
| Investment in associate | - | - | - | - | 67 | 37 | - | 150 |
| Other non-current assets, net | 43 | 35 | 33 | 41 | 67 | 67 | 121 | 229 |
| **Total assets** | **179,609** | **35,583** | **16,206** | **11,171** | **9,923** | **12,871** | **22,639** | **52,469** |
| **LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)** | | | | | | | | |
| Accounts payable | 1,075 | 1,185 | 852 | 844 | 576 | 811 | 3,018 | 9,199 |
| Accrued liabilities | 2,653 | 1,395 | 1,522 | 873 | 1,068 | 1,215 | 1,720 | 2,563 |
| Dividends payable | 1,402 | 659 | - | - | - | - | - | - |
| Taxes payable | 227 | 410 | - | - | - | - | - | 1,443 |
| Notes payable - current portion | - | - | - | - | - | - | 1,693 | 104 |
| Capital lease obligations - current portion | - | - | - | - | - | - | 49 | 103 |
| Other current liabilities | - | - | 19 | 5 | 125 | - | 43 | 0 |
| **Total current liabilities** | **5,357** | **3,649** | **2,393** | **1,722** | **1,769** | **2,026** | **6,523** | **13,412** |
| Notes payable, less current portion | - | - | - | - | 2,093 | 1,693 | 0 | 0 |
| Long-term debt | - | - | - | - | - | - | - | 1,375 |
| Accrued liabilities | - | 1,718 | - | - | - | - | - | - |
| Future tax liability | 3,991 | - | - | - | - | - | - | - |
| Capital lease obligations (less current) | - | - | - | - | - | 0 | 163 | 279 |
| 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 | 0 |
| **Total liabilities** | **37,548** | **13,517** | **6,239** | **1,722** | **3,862** | **3,721** | **6,686** | **15,066** |
| Non-controlling interests | **9,394** | **7,072** | **4,776** | **3,466** | **3,623** | **4,462** | **4,754** | **7,521** |
| Common stock | 139,718 | 139,718 | 139,718 | 145,412 | 143,747 | 144,677 | 146,704 | 164,754 |
| Additional paid-in-capital | - | 228 | 812 | 886 | 1,004 | 1,125 | 4,193 | 4,318 |
| Accumulated deficit | (7,051) | (124,952) | (135,339) | (140,315) | (142,313) | (141,114) | (139,698) | (139,190) |
| Total shareholders' equity (deficit) | 132,667 | 14,994 | 5,191 | 5,983 | 2,438 | 4,688 | 11,199 | 29,882 |
| Total equity (deficit) | 142,061 | 22,066 | 9,967 | 9,449 | 6,061 | 9,150 | 15,953 | 37,403 |
| **Total liabilities and shareholders' equity** | **179,609** | **35,583** | **16,206** | **11,171** | **9,923** | **12,871** | **22,639** | **52,469** |
| Shares outstanding | 13,900,852 | 13,900,852 | 13,900,852 | 33,344,210 | 33,385,395 | 36,082,114 | 42,729,547 | 52,410,970 |

# Nobilis Health Corp.

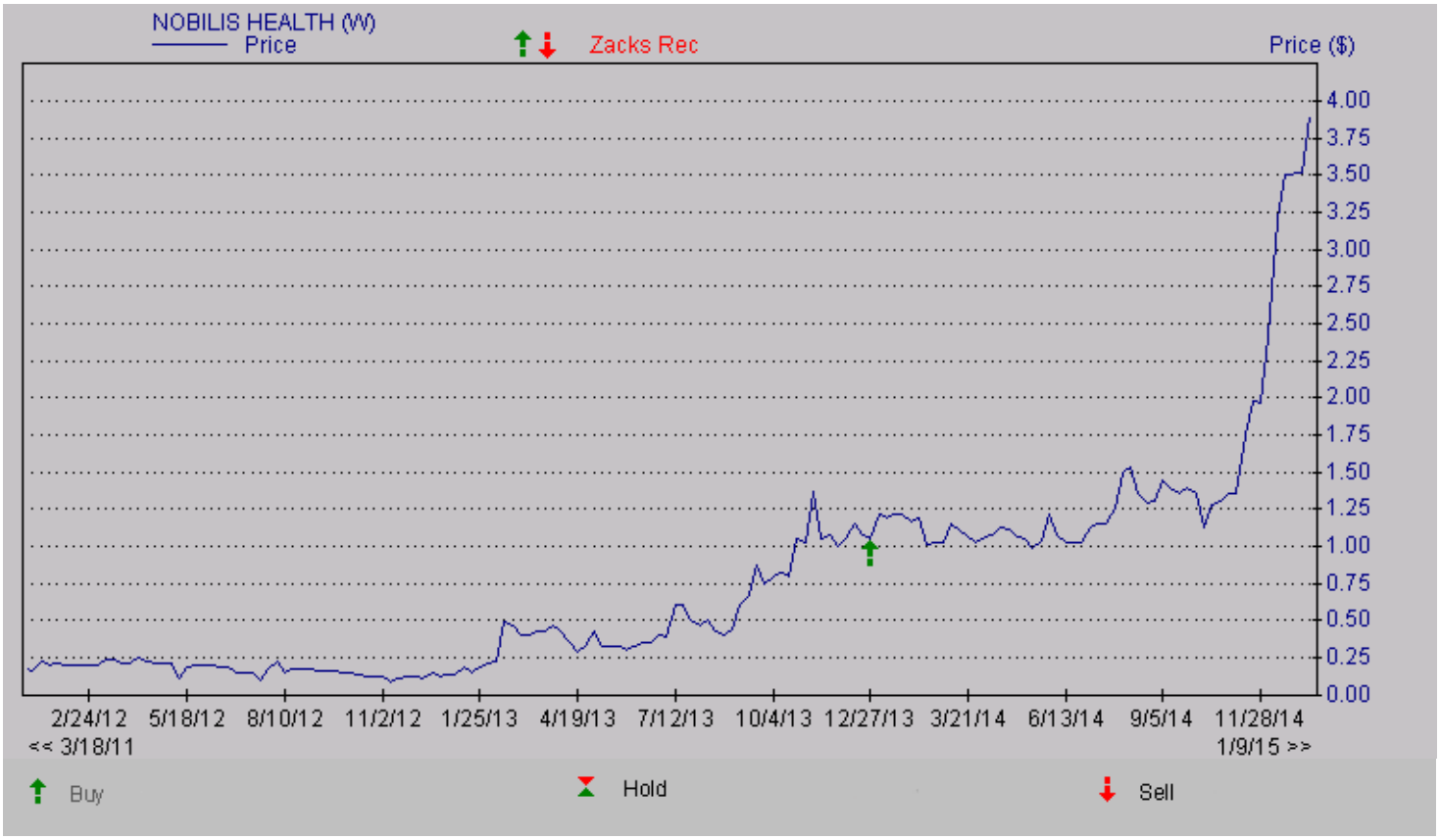
| (in thousands of $US) | 2012 12/31/2012 | 2013 1Q | 2013 2Q | 2013 3Q | 2013 4Q | 2013 12/31/2013 |
|---|---|---|---|---|---|---|
| **Net patient service revenue** | **20,897** | **4,121** | **5,862** | **7,640** | **13,505** | **31,128** |
| **Operating expenses** | | | | | | |
| Salaries and benefits | 3,832 | 1,012 | 1,142 | 1,332 | 1,843 | 5,329 |
| Medical supplies | 2,391 | 686 | 724 | 852 | 2,161 | 4,423 |
| General and administrative expenses | 4,488 | 1,217 | 2,005 | 2,993 | 4,433 | 10,648 |
| Provision for doubtful accounts | 145 | - | - | - | - | - |
| Depreciation and amortization | 779 | 156 | 155 | 154 | 185 | 650 |
| **Total operating expenses** | **11,635** | **3,071** | **4,026** | **5,331** | **8,622** | **21,050** |
| **Operating income** | **9,262** | **1,050** | **1,836** | **2,309** | **4,883** | **10,078** |
| Salaries and benefits | 1,600 | 520 | 536 | 420 | 809 | 2,285 |
| General and administrative | 1,681 | 426 | 470 | 577 | 755 | 2,228 |
| Legal expenses | 553 | 107 | 174 | 354 | 173 | 808 |
| Amortization | 71 | 19 | 20 | 20 | 22 | 81 |
| **Total corporate expenses** | **3,905** | **1,072** | **1,200** | **1,371** | **1,759** | **5,402** |
| **Other income (expense)** | | | | | | |
| Gain (loss) on bargain purchase | - | - | - | - | 2,392 | 2,392 |
| State franchise tax (expense) | (119) | (17) | (35) | (47) | (78) | (177) |
| Other income (expense) | 3 | (13) | (19) | 98 | (65) | 1 |
| **Total other (income) expense** | **(116)** | **(30)** | **(54)** | **51** | **2,249** | **2,216** |
| **Net Income** | **5,241** | **(52)** | **582** | **989** | **5,373** | **6,892** |
| Total income tax expense (recovery) | 0 | 0 | 0 | 0 | 0 | 0 |
| **Net income attributable to noncontrolling int.** | **4,042** | **653** | **1,145** | **1,328** | **2,350** | **5,476** |
| **Net gain (loss) attributable to shareholders** | **1,199** | **(705)** | **(563)** | **(339)** | **3,023** | **1,416** |
| Basic income (loss) per share | $0.03 | ($0.02) | ($0.02) | ($0.01) | $0.08 | $0.04 |
| **Diluted income (loss) per share** | **$0.03** | **($0.02)** | **($0.02)** | **($0.01)** | **$0.08** | **$0.04** |
| Basic weighted average shares outstanding | 35,461,911 | 36,221,965 | 36,308,965 | 36,817,590 | 37,827,235 | 36,793,950 |
| Diluted weighted average shares outstanding | 35,764,295 | 36,221,965 | 36,308,965 | 36,817,590 | 37,827,235 | 37,637,662 |

| (in thousands of $US) | 2013 12/31/2013 | 2014 1Q | 2014 2Q | 2014 3Q | 2014 4Q E | 2014 E 12/31/2014 |
|---|---|---|---|---|---|---|
| **Net patient service revenue** | **31,128** | **12,121** | **15,114** | **17,193** | **39,200** | **83,628** |
| **Operating expenses** | | | | | | |
| Salaries and benefits | 5,329 | 1,915 | 2,003 | 2,964 | 5,488 | 12,370 |
| Medical supplies | 4,423 | 1,564 | 2,405 | 2,267 | 2,450 | 8,686 |
| General and administrative expenses | 10,648 | 5,906 | 6,006 | 6,164 | 6,300 | 24,376 |
| Provision for doubtful accounts | - | - | - | - | 50 | 50 |
| Depreciation and amortization | 650 | 298 | 305 | 352 | 400 | 1,355 |
| **Total operating expenses** | **21,050** | **9,683** | **10,719** | **11,747** | **14,688** | **46,837** |
| **Operating income** | **10,078** | **2,438** | **4,395** | **5,446** | **24,512** | **36,791** |
| Salaries and benefits | 2,285 | 559 | 470 | 636 | 780 | 2,445 |
| General and administrative | 2,228 | 552 | 689 | 706 | 800 | 2,747 |
| Legal expenses | 808 | 271 | 351 | 204 | 250 | 1,076 |
| Amortization | 81 | 32 | 29 | 26 | 23 | 110 |
| **Total corporate expenses** | **5,402** | **1,414** | **1,539** | **1,572** | **1,853** | **6,378** |
| **Other income (expense)** | | | | | | |
| Gain (loss) on bargain purchase | 2,392 | - | - | - | - | - |
| State franchise tax (expense) | (177) | (80) | (158) | (94) | (182) | (514) |
| Other income (expense) | 1 | (385) | 35 | (124) | (64) | (538) |
| **Total other (income) expense** | **2,216** | **(465)** | **(123)** | **(218)** | **(246)** | **(1,052)** |
| **Net Income** | **6,892** | **559** | **2,733** | **3,656** | **22,413** | **29,361** |
| 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** | **11,594** | **18,034** |
| **Net gain (loss) attributable to shareholders** | **1,416** | **(800)** | **228** | **1,080** | **10,819** | **11,327** |
| Basic income (loss) per share | $0.04 | ($0.02) | $0.01 | $0.02 | $0.22 | $0.25 |
| **Diluted income (loss) per share** | **$0.04** | **($0.02)** | **$0.01** | **$0.02** | **$0.17** | **$0.23** |
| Basic weighted average shares outstanding | 36,793,950 | 43,190,620 | 43,411,318 | 44,591,772 | 49,527,848 | 45,180,390 |
| Diluted weighted average shares outstanding | 37,637,662 | 43,190,620 | 43,641,426 | 45,711,687 | 62,123,882 | 48,666,904 |

# Northstar Healthcare Inc.

| (in thousands of $US) | 2014 E 12/31/2014 | 2015 1Q E | 2015 2Q E | 2015 3Q E | 2015 4Q E | 2014 E 12/31/2015 |
|---|---|---|---|---|---|---|
| **Net patient service revenue** | **83,628** | **30,424** | **40,330** | **49,091** | **86,078** | **205,923** |
| **Operating expenses** | | | | | | |
| Salaries and benefits | 12,370 | 4,259 | 5,646 | 6,873 | 12,051 | 28,829 |
| Medical supplies | 8,686 | 3,042 | 4,033 | 4,909 | 5,165 | 17,149 |
| General and administrative expenses | 24,376 | 12,778 | 13,309 | 14,236 | 12,051 | 52,374 |
| Provision for doubtful accounts | 50 | - | - | - | - | 0 |
| Depreciation and amortization | 1,355 | 304 | 403 | 491 | 861 | 2,059 |
| **Total operating expenses** | **46,837** | **20,384** | **23,391** | **26,509** | **30,127** | **100,412** |
| **Operating income** | **36,791** | **10,040** | **16,939** | **22,582** | **55,950** | **105,511** |
| Salaries and benefits | 2,445 | 605 | 802 | 977 | 1,713 | 4,097 |
| General and administrative | 2,747 | 621 | 823 | 1,002 | 1,757 | 4,203 |
| Legal expenses | 1,076 | 194 | 257 | 313 | 549 | 1,313 |
| Amortization | 110 | 18 | 24 | 29 | 51 | 121 |
| **Total corporate expenses** | **6,378** | **1,438** | **1,906** | **2,321** | **4,069** | **9,734** |
| **Other income (expense)** | | | | | | |
| Gain (loss) on bargain purchase | - | - | - | - | - | - |
| State franchise tax (expense) | (514) | (186) | (246) | (299) | (525) | (1,256) |
| Other income (expense) | (538) | (385) | (128) | (124) | (64) | (701) |
| **Total other (income) expense** | **(1,052)** | **(571)** | **(374)** | **(423)** | **(589)** | **(1,957)** |
| **Net Income** | **29,361** | **8,031** | **14,658** | **19,838** | **51,292** | **93,820** |
| Total income tax expense (recovery) | 0 | 0 | 0 | 0 | 0 | 0 |
| **Net income attributable to noncontrolling int.** | **18,034** | **3,614** | **6,450** | **8,332** | **18,465** | **36,861** |
| **Net gain (loss) attributable to shareholders** | **11,327** | **4,417** | **8,209** | **11,506** | **32,827** | **56,959** |
| Basic income (loss) per share | $0.24 | $0.07 | $0.14 | $0.19 | $0.53 | $0.94 |
| **Diluted income (loss) per share** | **$0.23** | **$0.06** | **$0.11** | **$0.15** | **$0.42** | **$0.75** |
| Basic weighted average shares outstanding | 46,774,799 | 59,400,000 | 60,291,000 | 61,195,365 | 61,973,143 | 60,714,877 |
| Diluted weighted average shares outstanding | 49,464,108 | 73,600,000 | 75,072,000 | 76,573,440 | 77,351,218 | 75,649,164 |

## HISTORICAL ZACKS RECOMMENDATIONS




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