Almost Family, Inc. AFAM (NAS)

Last Close	Industry	Sector
18.63 USD	Medical Care	Healthcare

Profile

Pricing data through 16 Aug 2011

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Contents

Almost Family, Inc. is a regionally focused provider of home health services. It has service locations in Florida, Kentucky, Connecticut, New Jersey, Ohio, Massachusetts, Alabama, Missouri, Illinois, Pennsylvania and Indiana. The company has two reportable segments, Visiting Nurse and Personal Care. Its VN segment provides a range of Medicare-certified home health nursing services to patients in need of recuperative care, typically following a period of hospitalization or care in another type of inpatient facility. Its services are often provided to patients in lieu of additional care in other settings, such as long term acute care hospitals, inpatient rehabilitation hospitals or skilled nursing facilities. Its nurses, therapists, medical social workers and home health aides work closely with patients and their families to design and implement an individualized treatment response to a physician-prescribed plan of care. The Company also offers specialty programs based on local needs, such as its Cardiocare Program, Frail Elderly Care Management, Orthopedic Program, Urology Program, Optimum Balance Program, and Telehealth Monitoring Program. Its PC segment provides services in patients' homes on an as-needed, hourly, or live-in basis. These services include personal care, medication management, meal preparation, caregiver respite and homemaking. Its services are often provided to patients who would otherwise be admitted to skilled nursing facilities for long term custodial care.

Almost Family, Inc. AFAM

Sales USD Mil	Mkt Cap USD Mil	Industry	Sector
335	175	Medical Care	Healthcare

Almost Family and its subsidiaries provide home health-care and adult day-care services. It operates adult-care centers in the eastern and Midwestern United States that offer home health-care services, including nursing and home infusion. Almost Family's centers administer medicine, prepare meals, offer counseling, and organize recreational and educational programs.

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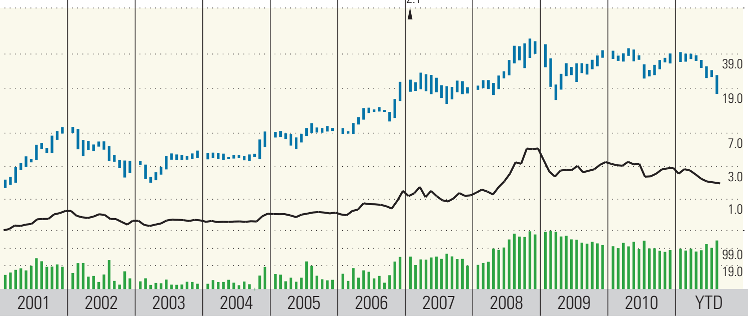
Louisville, KY 40223
Phone: 1 502 891-1000
Website: http://www.almostfamily.com

Employees: 6400

Morningstar Rating	Last Price	Fair Value	Uncertainty	Economic Moat™	Stewardship Grade
-	18.63	-	-	-	-

per share prices in USD

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	YTD	
8.17	8.24	4.73	7.42	8.93	21.95	26.59	53.85	47.90	44.12	40.76	Annual Price High
1.69	2.33	2.00	3.67	4.90	7.03	13.70	16.60	14.91	23.50	16.97	Low
						2:1					Recent Splits



Price Volatility
Monthly High/Low
Rel Strength to S&P 500
52 week High/Low
40.76 - 16.97
10 Year High/Low
53.85 - 1.69
Bear-Market Rank
7 (10=worst)
Trading Volume Thousand

Growth Rates Compound Annual

	1 Yr	3 Yr	5 Yr	10 Yr
Revenue %	13.1	36.6	34.8	20.6
Operating Income %	22.8	54.8	66.1	42.7
Earnings/Share %	14.3	32.8	42.7	54.7
Dividends %	—	—	—	—
Book Value/Share %	21.1	45.4	36.3	25.0
Stock Total Return %	-28.3	-22.6	9.3	17.0
+/- Industry	-37.8	-22.1	9.3	15.6
+/- Market	-45.6	-23.3	9.1	16.2

Profitability Analysis

	Current	5 Yr Avg	Ind	Mkt
Return on Equity %	14.1	21.2	29.7	24.2
Return on Assets %	11.8	13.3	5.3	9.4
Fixed Asset Turns	76.8	75.1	3.3	7.4
Inventory Turns	—	—	19.9	15.1
Revenue/Employee USD K	52.3	46.2*	—	996.6
Gross Margin %	53.2	52.4	39.4	39.5
Operating Margin %	12.8	12.2	10.9	16.0
Net Margin %	7.6	7.1	5.1	10.8
Free Cash Flow/Rev %	9.6	6.1	5.0	0.1
R&D/Rev %	—	—	—	9.8

Financial Position

	12-10 USD Mil	06-11 USD Mil
Cash	48	56
Inventories	—	—
Receivables	40	39
Current Assets	100	108
Fixed Assets	5	4
Intangibles	115	120
Total Assets	220	233
Payables	5	5
Short-Term Debt	—	—
Current Liabilities	28	27
Long-Term Debt	1	1
Total Liabilities	38	38
Total Equity	182	195

Valuation Analysis

	Current	5 Yr Avg	Ind	Mkt
Price/Earnings	6.8	17.5	11.7	13.4
Forward P/E	8.3	—	—	12.4
Price/Cash Flow	5.0	20.0	6.1	7.1
Price/Free Cash Flow	5.4	23.1	11.9	15.9
Dividend Yield %	—	—	0.2	2.0
Price/Book	0.9	3.0	2.9	1.8
Price/Sales	0.5	1.2	0.6	1.2
PEG Ratio	0.6	—	—	1.6

*3Yr Avg data is displayed in place of 5Yr Avg

Stock Performance

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	YTD	Stock Performance
347.7	-56.5	29.0	64.6	8.6	173.8	-11.3	131.5	-12.1	-2.8	-51.5	Total Return %
360.7	-33.1	2.6	55.6	5.6	160.2	-14.8	170.0	-35.5	-15.6	-46.3	+/- Market
343.9	-22.7	-0.2	58.6	-4.5	172.0	-12.3	159.8	-46.1	-12.5	-45.3	+/- Industry
—	—	—	—	—	—	—	—	—	—	0.0	Dividend Yield %
39	16	21	34	37	106	106	366	362	355	175	Market Cap USD Mil

Financials

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	TTM	Financials
50	86	87	87	76	92	132	213	298	337	335	Revenue USD Mil
16.7	17.7	16.5	15.8	47.6	48.9	51.7	53.5	53.5	54.4	53.2	Gross Margin %
3	4	3	3	4	7	14	28	42	52	43	Oper Income USD Mil
6.2	4.4	3.1	3.5	5.4	7.7	10.5	13.3	14.1	15.3	12.8	Operating Margin %
2	1	2	1	8	4	8	16	25	31	26	Net Income USD Mil
—	0.25	0.42	0.23	1.51	0.80	1.36	2.16	2.86	3.28	2.73	Earnings Per Share USD
—	—	—	—	—	—	—	—	—	—	—	Dividends USD
4	5	5	5	5	5	6	8	9	9	9	Shares Mil
2.11	2.23	2.67	2.95	4.33	5.74	6.41	11.65	16.28	19.72	20.87	Book Value Per Share USD
2	5	6	7	4	5	7	9	27	35	35	Oper Cash Flow USD Mil
-2	-3	-2	-1	-1	-1	-1	-1	-2	-3	-3	Cap Spending USD Mil
1	2	4	6	4	4	6	8	25	32	32	Free Cash Flow USD Mil

Profitability

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	TTM	Profitability
11.1	3.6	6.1	3.9	26.9	10.1	12.6	14.3	14.3	15.2	11.8	Return on Assets %
22.4	13.3	19.0	9.2	46.7	17.7	24.3	25.1	20.1	18.6	14.1	Return on Equity %
4.4	1.6	2.4	1.4	10.4	4.6	5.8	7.7	8.2	9.1	7.6	Net Margin %
2.50	2.33	2.49	2.84	2.58	2.19	2.19	1.86	1.73	1.67	1.54	Asset Turnover
2.5	3.6	2.7	2.1	1.5	1.9	1.9	1.7	1.2	1.2	1.2	Financial Leverage

Financial Health

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	06-11	Financial Health
5	10	10	7	9	7	5	6	40	72	81	Working Capital USD Mil
6	14	11	4	1	13	16	27	3	1	1	Long-Term Debt USD Mil
9	10	12	14	20	28	35	95	149	182	195	Total Equity USD Mil
0.73	1.52	1.00	0.37	0.06	0.47	0.47	0.29	0.02	0.01	0.01	Debt/Equity

Valuation

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	TTM	Valuation
16.7	14.2	17.9	24.6	14.4	27.4	13.9	20.8	13.8	11.7	6.8	Price/Earnings
—	—	—	—	—	—	—	—	—	0.7	0.5	P/E vs. Market
0.9	0.2	0.3	0.4	0.6	1.3	0.8	1.6	1.1	1.1	0.5	Price/Sales
3.8	1.6	1.7	2.5	1.9	3.8	3.0	3.9	2.4	2.0	0.9	Price/Book
8.2	3.8	4.0	5.5	10.0	25.5	15.5	36.0	12.5	10.3	5.0	Price/Cash Flow

Quarterly Results

Revenue USD Mil	Sep 10	Dec 10	Mar 11	Jun 11
Most Recent Period	84.9	84.6	82.6	81.7
Prior Year Period	76.3	78.0	81.8	85.6

Rev Growth %	Sep 10	Dec 10	Mar 11	Jun 11
Most Recent Period	11.3	8.5	1.0	-4.5
Prior Year Period	29.9	17.9	18.2	14.4

Earnings Per Share USD	Sep 10	Dec 10	Mar 11	Jun 11
Most Recent Period	0.85	0.75	0.61	0.53
Prior Year Period	0.73	0.72	0.80	0.89

Industry Peers by Market Cap

	Mkt Cap USD Mil	Rev USD Mil	P/E	ROE%
Almost Family, Inc.	175	335	6.8	14.1
Netcare Limited	—	—	—	—
Bangkok Dusit Medica	—	2712	25.0	—

Major Fund Holders

	% of shares
	—
	—
	—

TTM data based on rolling quarterly data if available; otherwise most recent annual data shown.

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Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
NA	NA	NA	NA	NA

*Report date represents the date on which the owner's common shares held was audited.

Fund Ownership

Top Owners	Morningstar Rating	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
Fidelity Low-Priced Stock	QQQQ	5.35	0.05	0	30 Apr 2011
Royce Pennsylvania Mutual Invmt	QQQQ	6.71	0.26	21	30 Jun 2011
Royce Capital Small-Cap Inv	QQQQ	3.83	1.31	11	30 Jun 2011
Vanguard Small Cap Index		1.36	0.02	127	31 Mar 2011
Vanguard Small Cap Index Inv	QQQ	1.36	0.01	0	30 Jun 2011
Concentrated Holders					
Catalyst Value A	QQQQ	0.91	2.47	45	31 Mar 2011
CornerCap Small Cap Value	QQ	0.14	2.22	0	31 Mar 2011
Royce Capital Small-Cap Inv	QQQQ	3.83	1.31	11	30 Jun 2011
HWB Portfolio Extra Plus V	Q	0.05	0.94	-5	31 Jul 2011

Institutional Transactions

Top 5 Buyers	Morningstar Rating	% of Shares Held	% of Fund Assets	Shares Bought/ Sold (k)	Portfolio Date
Vanguard Small Cap Index		1.36	0.02	127	31 Mar 2011
ING Index Plus SmallCap Port I	QQQ	0.76	0.59	71	30 Jun 2011
Vanguard Total Stock Mkt Idx		0.73	0.00	68	31 Mar 2011
Catalyst Value A	QQQQ	0.91	2.47	45	31 Mar 2011
ISBI Domestic Equity		0.40	0.02	37	31 Jul 2010
Top 5 Sellers					
Christian Bros CUIT Small Cap Eqty Idx B	QQQ	0.02	0.02	-61	30 Sep 2010
HWB Portfolio Plus V	Q	0.19	0.70	-18	31 Jul 2011
CREF Stock	QQQQ	0.65	0.00	-12	30 Jun 2011
HWB Victoria Strategies Portfolio V	QQ	0.06	0.36	-6	31 Jul 2011

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Industry Focus: Health Care Providers

Why Dialysis Remains an Attractive Business
25 August 2010

Bill Buhr
Stock Analyst

The dialysis industry is in a state of flux, but business models remain intact.

With regulatory changes afoot in the dialysis space, it's critical that investors understand the dimensions around the new bundled payment system, and what it means for industry stalwarts Fresenius FMS and DaVita DVA . We've touted both of these firms as intriguing investment opportunities at various times in the past, and would recommend them again--Fresenius more so, given its vertically integrated business model and non-U.S. exposure--if either one were to return to 4- or 5-star territory. Before we talk about the two companies individually, let's quickly recap the current reimbursement structure, as well as the Centers for Medicare Medicaid Services' (CMS) final proposed changes to the payment system.

Regulatory Changes to the Current Reimbursement Structure

Dialysis is somewhat unique in that Medicare is the primary payer for all patients with End-Stage Renal Disease after a period of 33 months, regardless of age. Once Medicare becomes the primary payer, it pays for 80% of the cost of treatment, with the patient, Medicaid, or supplementary third-party insurance responsible for the remaining 20%. Medicare payment rates are considerably lower than commercial rates, which mean two things: Dialysis centers depend on higher commercial rates to subsidize Medicare rates, and centers actually lose money on Medicare-reimbursed treatments, as payments are lower than a typical center's average cost per treatment.

The current Medicare payment system provides dialysis centers with an adjustable composite payment for each treatment, plus a separate payment for certain drugs administered during treatment, the most critical of which is Amgen 's AMGN anemia drug Epogen. Due to the fact that the government provides separate Epogen reimbursement to clinics, a de facto profit center has developed for many dialysis firms, much to the chagrin of regulators. Epogen now represents around 20% of dialysis services revenue in North America for both Fresenius and DaVita, and an even greater amount of profits. CMS has become increasingly concerned that the current system encourages overuse of Epogen, particularly due to the drug's high profitability for dialysis centers and recent safety concerns that may be tied to Epogen overuse.

Bundling and its Impact on Fresenius, DaVita

Partly as a result of these concerns, the government will now administer one payment for all dialysis services provided, including pharmaceuticals. The new payment system, which begins next year, will cover services and certain drugs, including Epogen, with potential adjustments based on age, body measurements, and total time spent on dialysis. This base rate has the potential to be roughly 10% lower than what the payment would have been under the old system. CMS is also introducing performance standards to ensure that quality of care for ESRD patients is satisfactory, with clinics facing a potential 2% rate reduction beginning in 2012 if quality of care is deemed subpar. We've been fairly steadfast in our opinion that dialysis providers in general, and the larger chains in particular, will not suffer materially from these changes, but we want to specially discuss our assumptions for each

Growth and Returns at the Top Two Dialysis Centers

	2005	2006	2007	2008	2009	*2010 E*	*2011 E*	*2012 E*
DaVita Inc. DVA								
Revenue Growth (%)	36.6	64.1	7.9	7.5	7.9	*6.7*	*4.0*	*4.1*
Operating Margin (%)	16.4	15.9	17.2	15.3	15.4	*15.6*	*15.6*	*15.5*
ROIC (%)	7.4	11.5	10.6	12.3	11.0	*9.3*	*10.2*	*8.4*
Fresenius FMS								
Revenue Growth (%)	8.7	25.5	14.4	9.2	6.0	*8.1*	*5.0*	*5.9*
Operating Margin (%)	13.9	15.5	16.3	15.8	15.6	*16.0*	*16.0*	*16.0*
ROIC (%)	11.2	10.2	9.0	11.1	9.6	*8.6*	*9.3*	*9.7*

Sources: Company Reports, Morningstar

company in the wake of the new bundling era.

We believe Fresenius is in a fairly strong position to absorb a more punitive bundling outcome. The firm has nearly 800 dialysis clinics outside of North America, which won't be affected by CMS' bundling decision. Secondly, Fresenius has a vibrant dialysis products business that generated $2.9 billion in 2009 and provides some diversity to its operating structure. With its vertically integrated business model, as well as its significant scale, we think the firm will be able to stomach any short-term issues related to bundling. In our base-case model for Fresenius, which yields a fair value estimate of $59 per share, we are currently projecting average revenue per treatment in North America to increase by 2% in 2010 to $349 per dialysis treatment (a blended rate of Medicare and private payers). However, we are projecting 1% reductions in this metric in 2011 through 2014 based on the introduction of bundling, as we expect private payer reimbursement levels to mitigate the negative bundling reimbursement changes. While it is unclear whether Fresenius will opt in fully on Jan. 1, 2011 or more gradually over the four-year period, the company has indicated to us that the longer the delay around the final rule lingers, the harder it could be to opt in fully next year. We currently assume the firm opts in over a four-year period. Including our revenue growth estimate of around 8% for 2010, we project a five-year compound annual growth rate of nearly 6% through 2014.

Our downside scenario assumes more drastic outcomes to revenue per treatment, with the metric falling by 4% annually from 2011 through 2014, yielding declining growth in North America dialysis care revenue over our five-year forecast period. Under this scenario, our overall compound annual growth rate for Fresenius revenue amounts to 2% annually. Even in this bear-case scenario, with lower growth and declining margins, our fair value estimate is $43 per share, about 20% off where Fresenius currently trades.

We think DaVita faces greater uncertainty and an elevated risk profile given the firm's lack of diversity, as the company possesses neither a products business nor international exposure on the services side. Our base-case scenario for DaVita assumes a compound annual revenue growth rate of 5% through 2014, including 7% revenue growth for 2010, and we estimate declines in average revenue per treatment for DaVita that are similar to Fresenius (1% revenue per treatment reductions beginning in 2011). This yields our fair value estimate of $71 per share. Our downside scenario for DaVita incorporates a 5% decline in average revenue per treatment from 2011 through 2014, yielding a compound annual revenue growth rate of roughly 1%. This scenario also assumes margin declines of 150 basis points to 13.8% of sales by 2014, and assumes DaVita is not able to realize cost savings on Epogen through its negotiations with Amgen. In this bear-case scenario, with lower growth and declining margins, our fair value estimate falls to $41 per share.

Overall Investment Takeaway

While there are still some uncertainties around how specific components of the new bundling rule could affect each firm's overall business model, we continue to believe that new regulations will not cause any substantial hiccups operationally for either company. Furthermore, given Fresenius' vertically integrated business model, and its international presence that partially serves to insulate it from potential domestic regulatory hurdles, we think the company is a great overall business for investors to hitch their wagons to--but only at the right price.