

# Mossberg's Investor Digest

## Best Idea Profile:

## AdCare Health Systems, Inc. (NYSE-AMEX:ADK)

### DESCRIPTION:

Headquartered in Springfield, Ohio; AdCare Health Systems, Inc. owns and manages retirement communities, assisted living facilities and nursing homes. ADK also provides home health care services to individuals. AdCare currently manages twenty-nine facilities, comprised of 20 skilled nursing centers, 8 assisted living residences and one independent living/senior housing facility, which total to over 2,400 units. ADK's communities are located in Ohio, Georgia and Alabama. Through its subsidiaries, ADK provides a full complement of administrative services as well as consultative services that permit its local facility leadership teams to better focus on the delivery of healthcare services. AdCare also provides these services to four unaffiliated third party long term care operators and/or owners on a long-term basis. ADK has an ownership interest in ten of the facilities that they manage, comprised of 100% ownership of four of the skilled nursing centers and six assisted living facilities. The company owned assisted living facilities are operated under the name Hearth & Home, with the tag line "Home is where the hearth is..." AdCare also maintains a development/consulting initiative which provides potential management opportunities to its core long-term care business.

### KEY INVESTMENT CONSIDERATIONS:

**Increased Demand and Cash Flows** – Assisted Living and Nursing Care facilities are reliable generators of cash flow with occupancy rate routinely above 80. An aging population of "Baby Boomers" should provide strong long-term demand trends for AdCare's services.

**Geographic Focus** – The assisted living market is large and highly fragmented. AdCare's strategic focus is on secondary markets. These markets offer ample opportunity and may be somewhat less competitive.

**Key Acquisitions** – The Company's intends to actively look for suitable acquisitions that fit strategically on both a business line and geographic basis. Several key acquisitions occurred during FY10. AdCare has taken advantage of a buyers' market to transform the size of the company. AdCare continues to evaluate new companies for more opportunities.

**Growth** - AdCare has put more than 25 facilities under contract since it began an M&A program at the end of 2009. When you include the transactions that the company has announced, or is in the process of closing, AdCare's annualized revenue run-rate exceeds \$175 million. This represents an increase of more than 229% over 2010 and more than 556% over revenues in 2009.

**Tangible Assets** - AdCare has \$37.6 million in Property and Equipment on its balance sheet. A substantial portion of the company's assets are in real estate.

**Insider Ownership** – Management beneficially owns 29.4% of the company's common shares. Therefore management and shareholder interest should be aligned.

### VALUATION:

AdCare is a contrarian play as there is some uncertainty about Medicare funding. Yet AdCare's management team has seized on the current buyers market to build a larger company. Long-term the company may also be a take-out candidate. Investors looking for exposure in this segment of the healthcare industry should take a hard look at AdCare.

#### (NYSE-AMEX:ADK)

Investment Data (as of 4/29/11)

<b>Recent Price</b>	<b>\$4.97</b>
52-Week Range	\$2.86 - \$5.48
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	8.4MM
Average Trading Volume (3 mos)	25,602
Market Capitalization	\$41MM
Cash	\$8MM
Long Term Debt	\$47MM
Enterprise Value (EV)	\$80MM
LT Debt/ Equity	3.2x
BV/ Share	\$1.68
TTM Revenue	\$53MM
P/ Revenue	0.8x
TTM EPS	\$(0.40)
P/ EPS	NA
TTM EBITDA	\$(375)K
EV/ EBITDA	NA

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