



ModivCare (NASDAQ: MODV)

Fall 2021
Healthcare



modivcare

I. Investment Overview

Buy ModivCare at standard allocation (1.5%) with an Implied upside of 25.6%

1

Push towards last mile healthcare services

- ModivCare has expanded their operations from predominantly non emergency medical solutions to a **full suite of medical solutions in the home**.
- These new acquisitions into adjacent markets have **expand their total addressable market by almost 250%** in the last 2 years

2

Strong Tailwinds driven by payor focus on SDoH

- The company's solutions address the social determinants of health (SDoH) by enabling patients **greater access to care, reducing costs and striving to improve patient outcomes**.
- A provider focus on SDoH proves attractive to government payers and insurers as they shift towards value-based care

3

Hidden Asset

- Modivcare currently **holds a 43.6% minority stake in Matrix Medical**, this represents possibly overlooked value not reflected in Modivcare's reported adjusted EBITDA
- Current majority ownership belongs to **Frazier Healthcare Partners who have had a position since 2016** and expect to realize their gain through either an outright sale or an IPO

4

Shift towards full suite at home healthcare

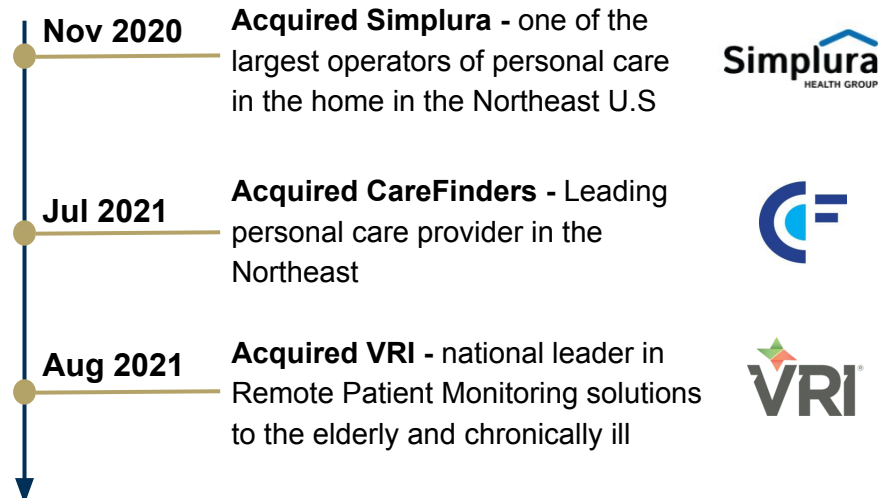
- In **June of 2021 CMS proposed a \$310MM boost to home health payment** with a national expansion of home health value based purchasing
- Growing aging population with chronic conditions coupled with an study showing **80% preference for at home healthcare** provides ModivCare a large market

Business Description

Modivcare provides critical supportive care solutions that address the social determinants of health (“SDoH”), serving healthcare’s most vulnerable populations.

- Largest non-emergency medical transportation (“NEMT”) provider in the US.
- Leading provider of personal care in the home.
- Developing an innovative nutritional meal delivery offering.
- Hold a valuable minority equity investment in Matrix Medical Network.

Significant Acquisitions Timeline



Key Statistics

GICS Sub-Industry	Healthcare Services
Market Cap	2.2B
Revenue	1,368,675
Current Price	156.9
52-Week Range	113.74 - 211.94
Beta	.82
Dividend Yield	-
Credit Rating	B+

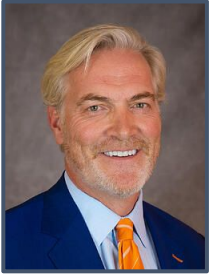
Reported EBITDA by Segment⁽¹⁾



Matrix Medical Adj. EBITDA⁽¹⁾⁽²⁾



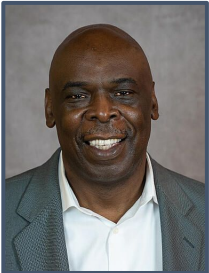
(1) Figures in thousands (2) Six months ending June 30



Daniel E. Greenleaf - President and CEO (since Dec. 2019)

Greenleaf has over 25 years of experience as CEO for various healthcare companies. Has brought significant revenue growth to Modivcare during his time with the company similar to the growth he created at his previous companies.

- Greenleaf was CEO of Coram, turning it into a top performing home infusion company and successfully selling to CVS



Kenneth W. Wilson - Chief Operating Officer (since May 2020)

Wilson has more than three decades of executive leadership experience in the healthcare industry, encompassing a range of senior operational, managerial, and commercial roles.

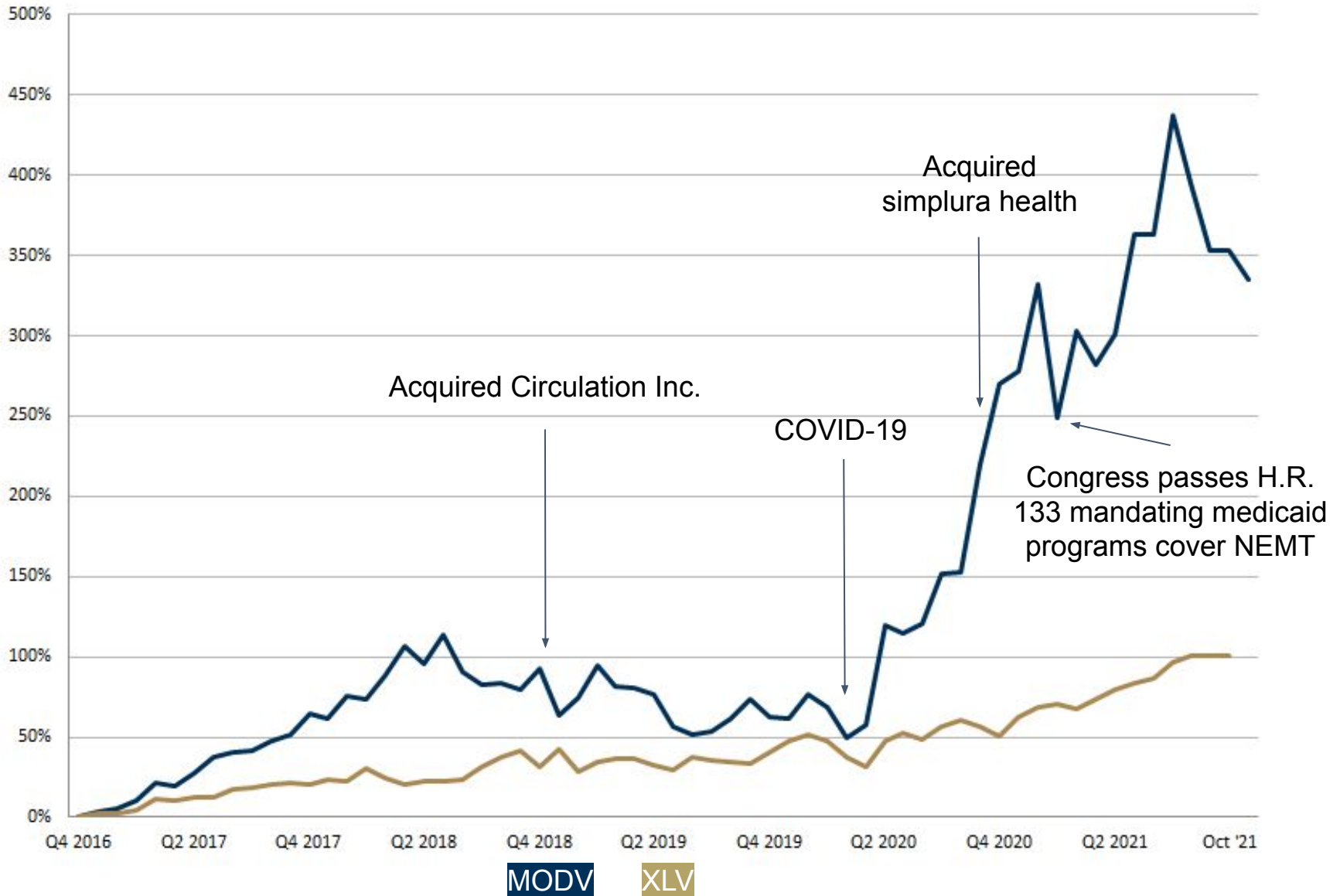


L. Heath Sampson - Chief Financial Officer (since Feb. 2021)

Sampson has nearly three decades of executive and financial leadership across a range of private and publicly traded companies. Has previously served as both a CEO and CFO and has kickstarted the recent growth and increase in stock price.

Most of the executive team has significant industry experience but has only recently joined ModivCare demonstrating a desire for innovation and strong growth directed from the executive team.

5-Year Annotated Stock Performance



II. Business Segments

Non Emergency Medical Transportation (NEMT)

- Largest NEMT manager in the US
- Provides NEMT services for patients whose limited mobility or financial resources hinders their ability to access necessary healthcare and social services
- **Contract retention rates greater than 90%**
- Strategic acquisition of WellRyde in 2021 - leading technology provider of Advanced Transportation Management Systems (ATMS) software
- EBITDA Margin: **12.8% compared to 7-10% industry avg.**

Remote Patient Monitoring (RPM)

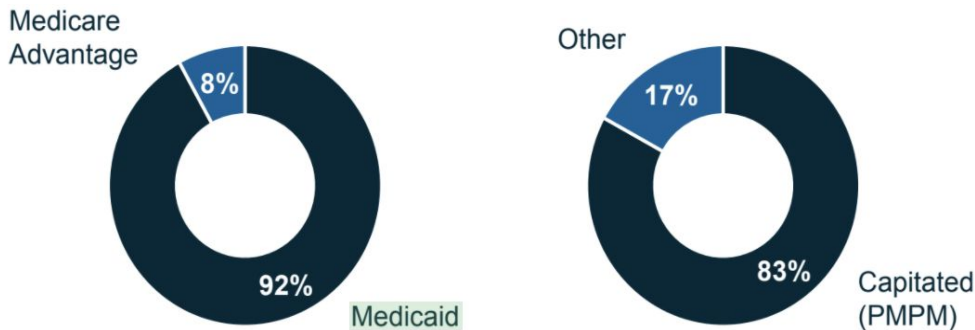
Completed a 100% **acquisition of VRI in September 2021**

- All cash deal advances ModivCare’s vision to be the preeminent provider of comprehensive supportive care services
- Increases total addressable market by an estimated \$8.5 billion in a market that is only 13% penetrated
- Provides predictable recurring revenue expected to grow in the mid-teens over the next few years
- EBITDA margin: **37.3% compared to mid-30% industry avg**

NEMT Revenue Breakdown (2020)

Payor Breakdown

Contract Type



RPM Multifaceted Solution Offering

Emergency Response

Chronic Conditions

Member Management



Mobile PERS



Vitals Monitoring

Engage
Educate
Empower
(E3)



In-Home PERS



Medication Management

Home Care

- Acquired Simplura Health Group in 2020, one of the largest operators of in-home care in the Northeast U.S.
- Acquired CareFinders in September 2021, the leading personal care operator in New Jersey
- Provides non-medical home care services to patient populations, including seniors and disabled adults, in need of monitoring and assistance performing daily activities
- Home care services brought in \$652M in revenue by providing over 30M hours of care to over 20k patients
- EBITA margin 13.9% compared to 10-12% industry avg

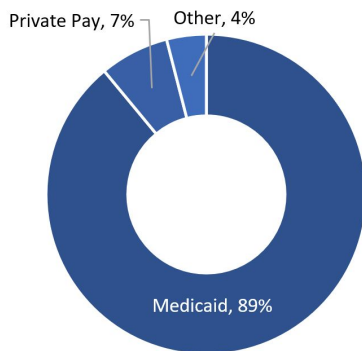
Nutrition Services

- Currently developing an innovative nutritional meal delivery program offering food for insecure patients
- Partnering with a food service provider to maintain asset light model, creating an opportunity for joint ventures and significant upselling opportunities
- Medicare Advantage plans are increasingly offering meal-related supplemental benefits
- Has delivered 2 million meals to date
- Unique opportunity for Modivcare to leverage “last mile” presence as well as their:

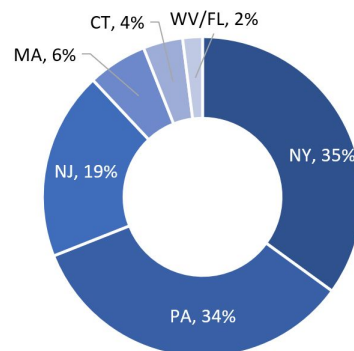
- Channel Expertise
- Logistical Expertise
- Technology Platform
- Strong Customer Relationship

Home Care Revenue Breakdown (2020)

Payor Breakdown



Geographic Breakdown



Key Points

- Modivcare reported earnings on Friday, November 5th
- Home & personal care is becoming more relevant in their revenue make up at **~24% of the quarterly revenue**
- Management believes all business lines remain slightly under pre-COVID levels with expectations that volume will exceed pre-COVID numbers in 2022
- Cost saving initiatives are looking to take more of the spotlight in coming quarters
- Retained 100% MCO contracts to date in their NEMT line

Project Storm & Project Lightning

- Storm and Lightning are two cost saving initiatives Modivcare has put focus on
- The goal is to optimize operations from the by automating their contact center and transportation processes
- Project Storm has been implemented and reported \$50 million in savings which may have been obscured by covid related costs
- Target combined saving of **\$100mm by end of 2022**

Financials

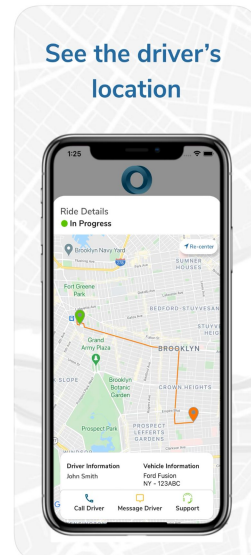
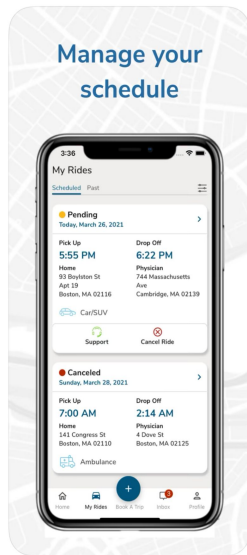
- Modivcare reported higher revenue but lower operating income for Q3 compared to 2020 due higher SG&A related to labor shortages
- NEMT trip volume is expected to increase into Q4 with a target 7-10% EBITDA margin
- Reported non-GAAP EPS of \$1.63 and GAAP -\$0.53 attributable to heightened service/SG&A expenses

Nine months ended Sep 30, 2021 (\$ in Thousands)

	<u>NEMT</u>	<u>Personal Care</u>	<u>RPM</u>	<u>Total Contued Operations</u>
Service revenue	\$ 1,081,168	\$ 338,385	\$ 1,564	\$ 1,421,117
Grant income	—	3,500	—	3,500
Operating				
Service expense	869,470	268,933	767	1,139,170
SG&A	133,706	45,349	216	179,271
D&A	21,744	14,723	200	36,667
Total operating	1,024,920	329,005	1,183	1,355,108
Operating income	56,248	12,880	381	69,509

WellRyde

- Modivcare acquired WellRyde in May 2021 to accelerate their mission of creating the largest digitally integrated NEMT network
- WellRyde is an leading technology provider of Advanced Transportation Management Systems (ATMS) software, allowing for significant automation
- ModivCare's implementation of WellRyde will allow transportation providers and their patients real-time visibility of their trips



Digitization

- Currently at 50% digitization, with goals of reaching **90% digitization through “Go Digital” initiative by year end**
- New management began investing heavily into technology in 2019
- Trying to create a Uber-like experience between driver and patient
- Currently, they have **20+ locations where 400 individuals manually route cars, along with 150 individuals processing claims and a 2,000 person call center**
- Digitization will allow Modivcare to create an automated operation, which will allow Modivcare to capture more market share and cut costs associated with headcount and real estate
- The goal is to automate where possible to eliminate manual effort for both patients and Modivcare's employees

Matrix Medical Acquisition

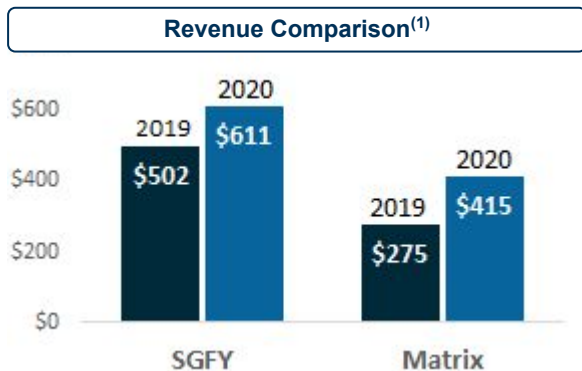
- **ModivCare acquired majority stake in Matrix Medical in 2014 for \$393 million** and partnered with private equity firm Frazier Healthcare in 2016 to grow Matrix Medical
- In 2016, Modivcare sold their majority stake to Frazier Healthcare to outsource management and growth initiative, thus now **ModivCare owns a 43.6% stake**
 - Matrix Medical Network is a national network of **4,200 community-based clinicians who deliver in-home and on-site services**
 - Advanced engagement approach, help payors manage risks and close care gaps

Exit Opportunities

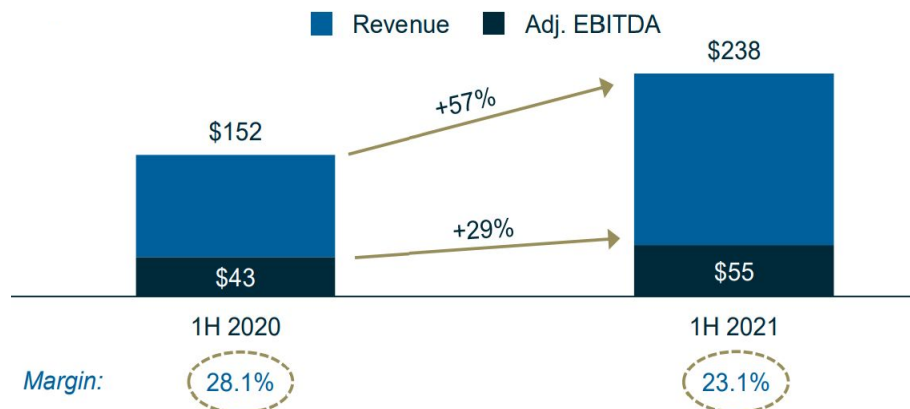
- Private equity investments horizons tend to land around 5-6 years and thus the Matrix Medical stake at Frazier stands to be realized through either an outright sale to a financial or strategic buyer or through an initial public offering
- Due to the multiples of publicly traded peers and equity market performance, an IPO looks rather attractive. Considering the Matrix Medical investment has already been held for 5 years, we believe **Frazier will likely pursue an exit within the next 12-24 months**

Significant Value Creation Potential

- Matrix's position becomes more attractive when you stack it against its closest publicly traded peer, Signify Health (NYSE: SGFY)



Matrix Medical Growth⁽¹⁾



(1) Figures in millions

Non Emergency Medical Transportation

- Global NEMT Market size was estimated at \$7.09B in 2020 and is projected to reach \$10B by 2026
 - CAGR: 6.94% from 2020-2026
- Nearly 4 million Americans miss or postpone medical care due to a lack of transportation.
- In December 2020, **Congress passed H.R. 133** that mandates state medicaid providers to provide transportation to and from providers also known as NEMT
- Modiv's NEMT payor breakdown is Medicaid (92%) and Medicare Advantage(8%)

At-Home Healthcare

- The global Home Healthcare Market was estimated at \$320B in 2021 and is expected to reach \$545B by 2028
 - CAGR: 7.30% from 2018 to 2028
- The key growth driver is that around 8 to 10 thousand Baby Boomers reach retirement age every day
- US adult population aged 65 and older is expected to grow at 3% each year for the next 5 years
- 79% of revenue comes from government program

Remote Patient Monitoring

- The global RPM 2021 estimated market size \$1.2B and is expected to reach 4.1B by 2028
 - CAGR: 19.7% from 2018 to 2028
- In a survey 57% of patients would opt for remote monitoring of ongoing health issues through at-home devices
- Healthy valuations are inflating deal flow activity as seen with companies like Best Buy buying Current Health
- CMS recently has added coverage for 'remote therapeutic monitoring' services in its proposed 2022 Physician Fee Schedule

Nutrition Services

- The US nutritional meal delivery market size is estimated at \$9B in 2021 and is expected to reach \$15B
 - CAGR of 16% 2021-2026
- Surveys show that out of 7 in 10 meal kit delivery customers state that they will continue using the service after the pandemic

Value to Consumers

- Be the **medical last mile** through various **technologies** including:
 - **Non-Emergency Medical Transportation (NEMT)** - “Go Digital” initiative and acquisition of WellRyde (Advanced Transportation Management Systems software)
 - **Remote Patient Monitoring** - including Personal Emergency Response Systems (“**PERS**”), Chronic Condition Monitoring, and Data-Driven Member Engagement / Insights Solutions
- Personal home care
- Developing a meal delivery plan
- Modivcare provides critical supportive care solutions that **address the social determinants of health (“SDoH”)** by being a one-stop shop for improving health outcomes through supportive care - decrease healthcare inequalities

Value to Payors⁽¹⁾

- Large focus remains on **value-based care solutions** that drive cost of care lower
- Removes transportation as a barrier to care and a way to improve Social Determinants of Health
- **Facilitates “aging in place” in lower cost settings** (patients homes), over higher cost institutional settings
- Provides **increased connectivity** inside of the patient’s home, and **access to unique patient data and information** to close gaps in care and increase patient engagement
- Leverage data analytics to produce **actionable insights to drive proactive patient interventions**

(1) Payor is (healthcare|medical insurance) the maker of a payment while payer is one who pays

III. Valuation

Company	Market Cap	5Y Rev CAGR	P/E	Forward P/E	P/S	FCF Margin	ROE	EV/EBITDA
ModivCare	\$2.31B	31.03%	45.89	22.02	1.23	24.57%	5.37%	17.54
Signify	\$3.88B	N/A	N/A	52.98	N/A	1.54%	N/A	53.94
Addus	\$1.31B	25.53%	29.44	20.39	1.59	13.31%	7.33%	16.51
LHC Group	\$4.55B	31.85%	25.26	21.98	2.10	22.46%	7.62%	13.75
Amedisys	\$5.45B	30.61%	24.04	25.85	2.49	13.69%	30.99%	19.99
Option Care Health	\$4.83B	16.99%	61.12	29.89	1.51	3.31%	5.04%	21.39
Median	\$3.72B	27.15%	34.00	29.68	1.82	13.15%	13.56%	23.16

Positives

- **P/S** - ModivCare's low P/S ratio likely indicates it is undervalued compared to competitors
- **FCF Margin** - The high FCF Margin points to high profitability
- **EV/EBITDA** - Modivcare currently trades at a relatively low EV/EBITDA

Negatives

- **P/E** - ModivCare's P/E took a hit in their most recent quarter as heightened SG&A lowered their earnings

Sensitivity Analysis (25.3% Implied Upside)

		Exit Multiple				
		15.0x	15.5x	16.0x	16.5x	17.0x
WACC	5.01%	\$211.55	\$219.44	\$227.34	\$235.24	\$243.13
	5.51%	\$205.30	\$213.01	\$220.72	\$228.43	\$236.14
	6.01%	\$199.22	\$206.75	\$214.28	\$221.82	\$229.35
	6.51%	\$193.31	\$200.67	\$208.02	\$215.38	\$222.74
	7.01%	\$187.56	\$194.75	\$201.93	\$209.12	\$216.30

Model Assumptions

- **Exit multiple of 16x** lies under the home care industry median, a vertical in which Modivcare is becoming significantly more involved in.
- **We cut margins down to a conservative level** compared to management and analyst estimates, providing us a cushion for Modivcare's contract payable expenses that will be paid off in Q4 21 & 1H 22
- Revenue projection in 2022 in line with analyst prediction and management guidance. **Revenue growth is expected to remain strong** as ModivCare will begin to realize synergies from late 2021 acquisitions

WACC Assumptions

Assumptions	
Tax Rate	32.00%
Exit Multiple (EBITDA)	16.0x
WACC Calculation	
Risk Free Rate	1.60%
Beta	0.82
Market Risk Premium	8.00%
Cost of Equity	8.2%
Pre-Tax Cost of Debt	1.47%
Market Cap	\$ 2,382.2
BV of Debt	\$ 1,019.4
Equity-to-Value	70.0%
Debt-to-Value	30.0%
WACC	6.01%

	Risk	Mitigation
1	<p>Delay of Synergies</p> <ul style="list-style-type: none"> Potential for synergies to be realized slower than expected Implementation into their digital network may be slower than anticipated Patient retention may suffer as cross selling opportunities grow slow 	<ul style="list-style-type: none"> ModivCare has built a synergistic ecosystem like this will thrive as healthcare increasingly moves away from higher cost institutional settings to lower cost home settings Management anticipate acquisitions have been immediately accretive to ModivCare with an initial expectation of mid-to-high teens earning accretion in 2022
2	<p>Heightened Debt Levels</p> <ul style="list-style-type: none"> In order to expand into these markets through acquisitions ModivCare issued \$500M due 2025 in senior unsecured notes along with \$500M more due 2029 This puts ModivCare's leverage ratio in the mid three times range 	<ul style="list-style-type: none"> This is leverage ratio is consistent with ModivCare's net leverage expectation at the time of the Simplura acquisition announced in September of 2020. After the Simplura acquisition, they reduced their net leverage into the 1x range driven by EBITDA growth and strong cash generation showing ModivCare manages their debt levels well
3	<p>Monetization Risk</p> <ul style="list-style-type: none"> There is no absolute guarantee that Matrix will be monetized by Frazier Health Partners There is also a risk that the sale of Matrix will be to a strategic acquirer which may yield a lower valuation 	<ul style="list-style-type: none"> Red hot equity markets may push Frazier to ultimately seek an IPO for Matrix Direct competitor Signify rationalized going public as investors are increasingly becoming more interested in at home and value based care models

Outstanding

- Modivcare displays a relatively strong balance sheet, **with nearly \$127M in cash** and a **\$225M undrawn revolver**
- Net leverage ratio pro forma for the acquisition of VRI and CareFinders was **3.4x at September 30**
- Modivcare operates in a capex-light environment with strong cash flows to lower their leverage ratio
 - From Modivcare's acquisition of Simplura in Q3 2020 Modivcare reduced their pro forma net leverage ratio down to the 1x range by end of Q1 2021 driven by EBITDA growth and strong cash flow generation
- Management has expressed they are considering to use the monetization event of Matrix in 2022 to reduce their leverage
- We expect this trend to continue and further accelerate, especially with **the monetization of gains on Matrix Medical in 2022**

Current LT Debt

\$500M

5.8% Senior Unsecured
due 2025

\$500M

5.0% Senior Unsecured
due 2029

Accrued Expenses

Contract Breakdown:

- 85%: Capitated Risk Contracts
- 15%: Fee-for-service Contracts

Capitated Risk Contracts Are Split Into Two Categories:

1. **Full Risk** (45% of 2021 Q3 NEMT Revenue): ModivCare is paid a fixed fee per member per month assume full responsibility to manage our respective transportation costs **regardless of trip volume.**
2. **Reconciliation & Rebate** (40% of 2021 Q3 NEMT Revenue): ModivCare is paid on a monthly membership basis, but **these contacts have provisions that cap or increase revenue based on trip volume and profit margin received.**
 - Modivcare expects to settle a meaningful portion of these payables in Q4

How This Changes Payables:

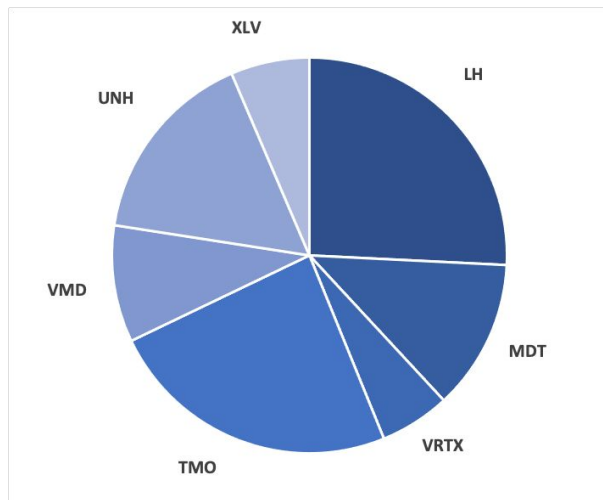
- The Reconciliation & Rebate contracts cause the payables and receivables to fluctuate based on utilization
- currently contract payables sit at \$320M
- COVID-19 caused lower utilization therefore more in rebate contract payables

IV. Conclusion

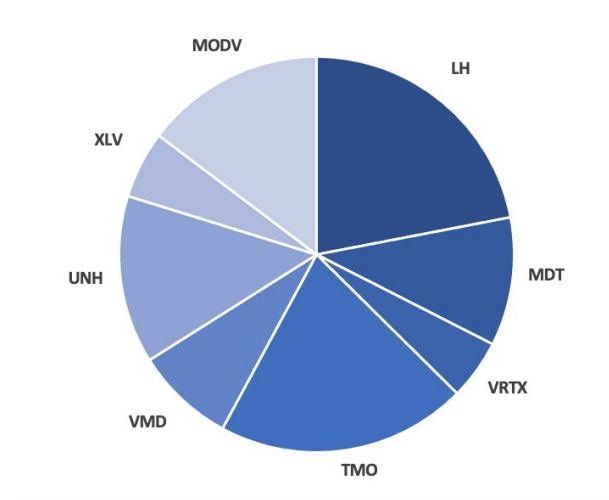
Buy ModivCare at standard allocation

- ModivCare entered multiple new markets in the past 2 years in attempt to create a centralized last mile healthcare service provider
- With a strong foot in the NEMT market ModivCare should be able to cross sell their now new other services to patients
- Current leverage ratios remain within management target and have historically proven it manages debt well
- We believe ModivCare will provide unique exposure into technology enabled healthcare services in the rapidly growing at home healthcare sector

Current Portfolio



Prospective Portfolio



<u>Name</u>	<u>Position</u>	<u>Phone Number</u>	<u>Email</u>
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Parth Varshney	Senior Analyst	(210) 702-9795	parthvarshney85@gmail.com
Cole Chalub	Analyst	561-371-7579	cole.chalhub@gmail.com
Mason Rzepkowski	Analyst	770-710-8872	masonrz@gmail.com
Pranal Madria	Analyst	573-578-9820	pranalmadria@gmail.com

	Historical			Expected	Projected				
	2018	2019	2020	2021	2022	2023	2024	2025	2026
Revenue	\$ 1,385.0	\$ 1,509.9	\$ 1,368.7	\$ 1,978.0	\$ 2,196	\$ 2,426	\$ 2,644	\$ 2,876	\$ 3,120
% YoY Growth	N/A	9.02%	-9.35%	44.52%	11.00%	10.50%	9.00%	8.75%	8.50%
Cost of Goods Sold	\$ 1,253.6	\$ 1,401.2	\$ 1,078.8	\$ 1,600.1	\$ 1,866	\$ 2,086	\$ 2,301	\$ 2,531	\$ 2,777
Gross Profit	\$ 131.4	\$ 108.7	\$ 289.9	\$ 377.9	\$ 329	\$ 340	\$ 344	\$ 345	\$ 343
% Margin	9.49%	7.20%	21.18%	19.11%	15.00%	14.00%	13.00%	12.00%	11.00%
EBITDA	85.1	61.8	178.5	189.0	176	212	234	257	282
% Margin	6.14%	4.09%	13.04%	9.56%	8.00%	8.75%	8.85%	8.95%	9.05%
Less: Depreciation	15.8	16.8	26.2	38.0	40	42	43	44	44
EBIT	69	45	152	151	136	171	191	214	238
Less: Taxes	22	14	49	48	43	55	61	68	76
EBIT*(1-T)	47	31	104	103	92	116	130	145	162
Add: Depreciation	16	17	26	38	40	42	43	44	44
Less: Inc. in NWC		32	19	(204)	(14)	(7)	(7)	(8)	(9)
Less: CapEx	17.5	10.9	12.2	16.1	19	22	25	29	33
FCF to Firm	45	5	99	329	128	142	155	168	182
PV Factor					0.94	0.89	0.84	0.79	0.75
PV of FCF					120	127	130	133	136
PV of Terminal Value									3374.0
Firm Value									4,019.3
Less: Debt									\$ 1,019
Equity Value									3,000.0
Shares Outstanding									14.0
Share Price									\$ 214.28