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## Nursing Home Operator Ensign Courts Wall St.; Private Equity Fallback?

By VITA REED

Ensign Group Inc. of Mission Viejo is readying to test the affection of Wall Street for nursing home operators.

If investors get cold feet—Ensign last week cut the price of its pending offering—some analysts think the company could have suitors in the wings.

Wall Street is a fickle lover of nursing homes, with investors driving up shares of Irvine's Sun Healthcare Group Inc. 23% this year to a recent market value of \$685 million.

But investors have shunned Kindred Healthcare Inc. of Louisville, Ky. Its shares are down 22% so far this year with a market value of \$790 million.



**Matros: "It's a good time to be publicly held"**

And shares of Skilled Healthcare Group Inc. of Lake Forest, which went public in May, are flat since their debut with a recent market value of \$585 million.

Ensign, which filed for its offering in May, declined to comment before its stock sale, which could come next week. Last week, it cut the price range on the 4 million shares it plans to offer from \$20 to \$22 per share to \$18 to \$20.

The offering is set to raise about \$92 million, including about \$70 million for Ensign after fees. Investors are selling an additional 600,000 shares, estimated at about \$10 million.

Ensign could see a market value of about \$450 million, according to Renaissance Capital LLC's IPOHome.com.

"In some respects, it's a good time to be publicly held," said Richard Matros, Sun's chief executive.

Buyouts have narrowed competition and remaining players could get more attention from analysts because there are fewer publicly held long-term care companies than in the 1990s, according to Matros.

Last year, Ensign's earnings before interest, taxes and other items were \$43 million,

up 25% from 2005. Revenue was \$358 million, up 19%.

Investors value nursing home operators on how they get their revenue, said John Driscoll, president of Alter+Care, a Chicago healthcare real estate investment company.

"The future of a nursing home planning an IPO may depend on whether they work with private residents or those that are publicly reimbursed," he said. "If the nursing home houses a primarily private sector of the population, they will be subject to the general market volatility."

That doesn't appear to come into play for Ensign. Its filing with the Securities and Exchange Commission shows that 75% of its revenue last year came from the government's Medicare program for the elderly and its Medicaid program for the poor.

Federal spending seems to be more stable than payments from insurers or patients themselves as there doesn't appear to be plans for major government cuts on the horizon. In 1997, the Balanced Budget Act dealt nursing homes heavy cuts. At one time, five of the top seven nursing home operators were in bankruptcy court.

"I don't think that's any concern," Sun's Matros said.

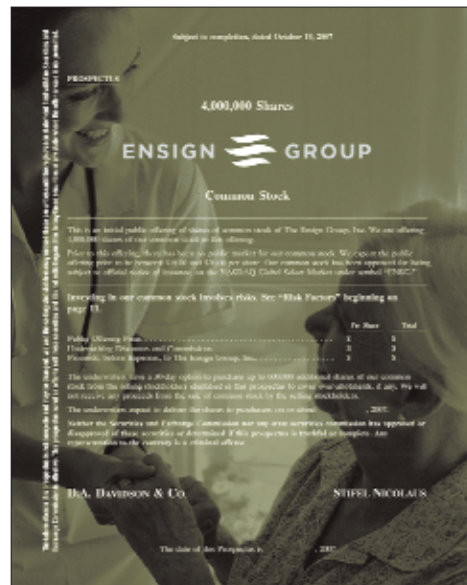
What is of concern to some observers is Ensign's choice to pursue a stock offering instead of selling to a private equity firm.

"That size of a company is very ripe for a private equity deal," said Paul Kacik, a senior vice president and head of healthcare investment banking at Barrington Associates Inc., which has an office in Newport Beach. "It's actually quite surprising that they wouldn't take it through a process and do a buyout with a middle-market private equity group."

That could be a more suitable strategy given Ensign's size, according to Kacik. The company is a third of the size of Sun and an eighth of the size of Kindred.

Even with recent fallout from the subprime mortgage market, "There's so much money out there competing against each other for deals that the valuations in the private markets are doing very well," Kacik said.

It doesn't make sense to go public unless a company could achieve a market value of \$1 billion or more, Kacik contends.



**Ensign's prospectus: company selling 4 million shares**

Some think Ensign's filing could be part of a dual track deal strategy.

"They file an S-1 for an IPO, but at the same time, they're testing the private markets out," Kacik said.

That way, if a company gets "to that last minute and they find that there's not as much interest in the IPO route or if the valuations don't make sense, they could always have a fallback position where they know they have bidders from private equity," Kacik said.

Private equity firms have become big players in nursing homes.

The Carlyle Group is in the process of buying Manor Care Inc. of Toledo, Ohio, for \$4.9 billion. Genesis Healthcare Corp. of Kennett Square, Pa., is being bought by Formation Capital LLC and JER Partners for \$1.2 billion. And Beverly Enterprises Inc. of Fort Smith, Ark., went private in 2005.

With the mortgage mess, debt has gotten harder to get for some deals, crimping the buying power of large firms such as Kohlberg Kravis Roberts & Co. and Blackstone Group LP.

But "the kind of smaller, middle-market space is not as affected," said Kacik, whose firm specializes in deals worth up to \$500 million. ■