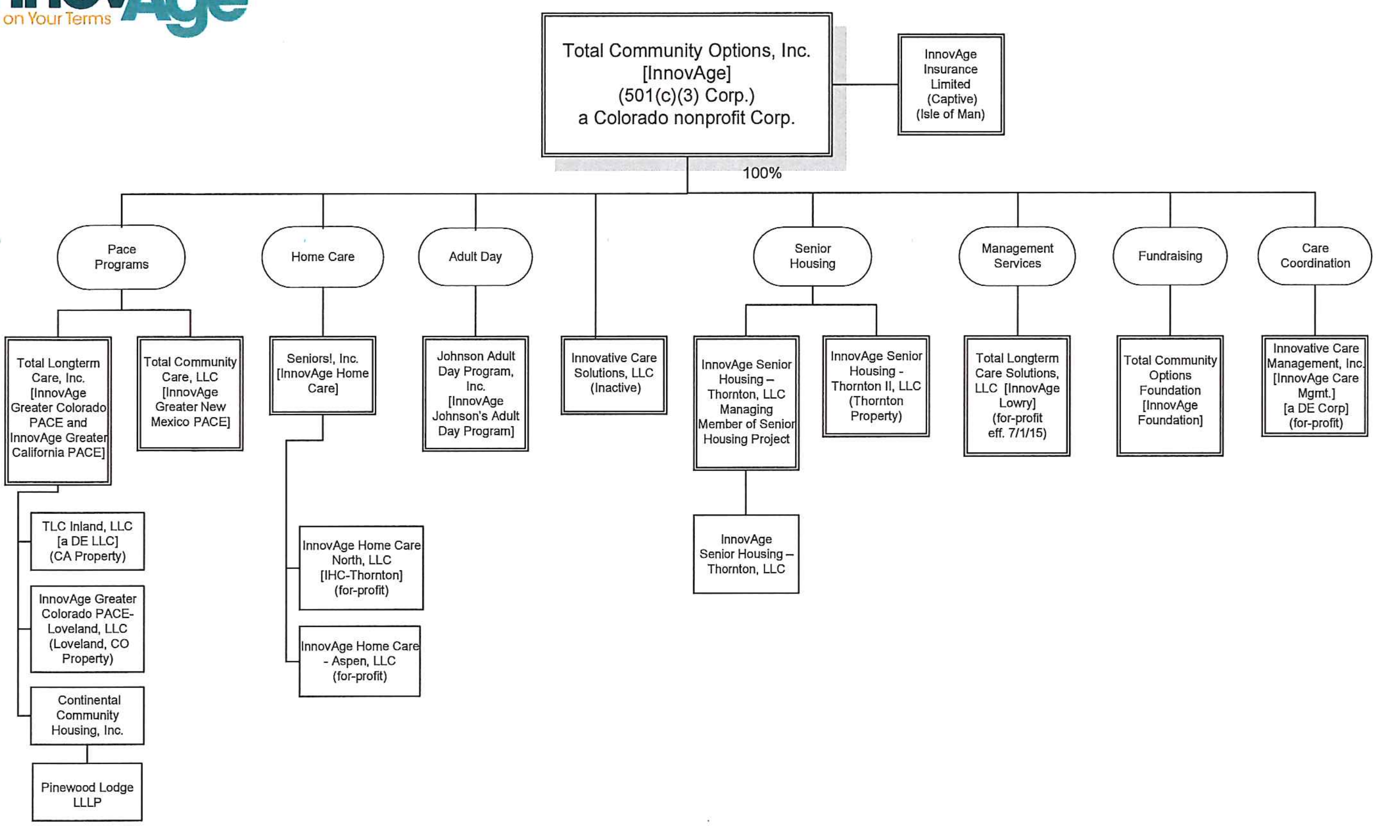
Attachment 2

InnovAge

Corporate Structure
As of May 2015



Attachment 3

Report to Congress:

The Centers for Medicare & Medicaid Services' Evaluation of For-Profit PACE Programs under Section 4804(b) of the Balanced Budget Act of 1997

U.S. Department of Health and Human Services

May 19, 2015

Background

Programs of All-Inclusive Care for the Elderly (PACE) is a model of care that allows people who otherwise need a nursing home-level of care to remain in the community by providing health care and related support services, such as social supports, meals and chore services, and transportation. Sections 4801 and 4802 of the Balanced Budget Act of 1997 (BBA) authorized the PACE program as a permanent part of the Medicare program and a state option under Medicaid by adding sections 1894 and 1934 to the Social Security Act (the Act). To be eligible for PACE services, an individual must be at least 55 years of age, a resident in a PACE organization's geographic service area, and certified by the state Medicaid agency as being nursing home eligible.

A PACE organization is the entity that operates a PACE program under a PACE program agreement. Sections 1894(a)(3)(A)(i) and 1934(a)(3)(A)(i) of the Act require a PACE organization to be a public entity or a private, nonprofit entity organized for charitable purposes under section 501(c)(3) of the Internal Revenue Code of 1986. We will refer to all entities that meet this requirement as not-for-profit. However, sections 1894(h) and 1934(h) of the Act direct the Secretary of Health and Human Services (the Secretary) to waive the requirement that a PACE organization be a not-for-profit entity in order to demonstrate the operation of a PACE organization by private, for-profit entities. Section 4804(b) of the BBA requires the Secretary to provide a report to Congress on the impact of this demonstration on quality and cost of services, including certain findings regarding the frailty level, access to care, and the quality of care of PACE participants enrolled with for-profit PACE organizations as compared to not-for-profit PACE organizations.

Section 4804(b)(2) of the BBA requires the report to Congress to include findings on whether any of the following four statements is <u>true</u> with respect to the for-profit PACE Demonstration:

A. *The number of covered lives enrolled with entities operating under demonstration project waivers under sections 1894(h) and 1934(h) of the Act is fewer than 800 (or such lesser number as the Secretary may find statistically sufficient to make determinations with respect to the findings described in the subsequent statements).*
B. *The population enrolled with such entities is less frail than the population enrolled with other PACE organizations.*
C. *Access to or quality of care for individuals enrolled with such entities is lower than such access or quality for individuals enrolled with other PACE organizations.*
D. *The application of such section has resulted in an increase in expenditures under the Medicare or Medicaid programs above the expenditures that would have been made if such section did not apply (collectively referred to in this document as the BBA statements).*

Under sections 1894(a)(3)(B)(ii) and 1934(a)(3)(B)(ii) of the Act, after the date the report is submitted to Congress, the requirement that a PACE organization be a not-for-profit entity will not apply unless the Secretary determines that any of the specific findings described above are true. Under sections 1894(h)(2)(A) and 1934(h)(2)(A) of the Act, the terms and conditions for operation of a PACE organization under the for-profit PACE demonstration must be the same as for not-for-profit PACE organizations (except for the for-profit status). Because the requirements are the same for not-for-profit and for-profit PACE organizations, operations for the for-profit PACE organizations participating in the demonstration are not expected to change if the for-profit exclusion no longer applies. These for-profit PACE organizations would become part of the permanent PACE program, but that change would not affect their enrollees or require any changes to enrollment. For-profit entities that are not currently participating in the demonstration but are interested in becoming PACE organizations would follow the existing application procedure for becoming a PACE organization.

In 2008, Mathematica Policy Research completed a study of the permanent not-for-profit PACE organizations (Beauchamp et al, 2008)[a]. An interim report to Congress (Leavitt 2009) based on this study was submitted in January 2009. At the time of the 2008 Mathematica study, no for-profit entities had enrolled in the PACE demonstration. Therefore, neither report assessed a for-profit PACE population nor did the interim report address the BBA statements.

Mathematica, under contract with CMS, conducted a study to address quality of and access to care for participants of for-profit PACE organizations, specifically focusing on the third BBA statement (Jones et al. 2013). The final report also includes material that provides insight into the first and second BBA statements, as detailed in the respective sections below.

The study on which the report was based was conducted in 2012-2013 and examined the four for-profit PACE organizations in operation during this period. Mathematica also identified four not-for-profit PACE organizations located in the same state (Pennsylvania) in a two-part process. First, not-for-profit plans were selected based on the length of time in operation; geographic characteristics (urban/rural); and population characteristics (age, race, ethnicity, and income, among others). The second step in the sampling process was to match individual participants within the not-for-profit plans to for-profit enrollees based on the length of time enrolled in their PACE plan. Four hundred and seven participants with a minimum of 6-months enrollment in a for-profit PACE plan were selected, matched with a final sample of 406 not-for-profit PACE participants. Telephone surveys were conducted with a total of 333 for-profit and 326 not-for-profit interviews completed.

Statement 1: For-Profit PACE Population Size

The first for-profit PACE organization began its participation in the demonstration at the end of 2007. The next three were added in 2011. Currently, there are six for-profit PACE organizations in existence, all operated by the SeniorLIFE corporation in Pennsylvania[b]; the first four were included in the Mathematica report and the other two did not enroll qualifying participants until after survey completion.[c]

[a] The report can be found at http://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/Reports/Downloads/Beauchamp_2008.pdf.

[b] A seventh for-profit PACE organization, operated by LIFE at Home, was terminated on May 1, 2012.

[c] Although one of the for-profit sites began its operations during the survey period, the practice did not have any qualifying participants with a minimum of 6 months enrollment in a PACE plan to report on services received.

As of December 31, 2014, the for-profit PACE organizations had a total enrollment of 1,088 covered lives, which is more than the 800 covered lives specified in the first BBA statement. Also, while not all of the for-profit PACE organizations or participants were available at the time of the for-profit PACE study, the sample size that was available for the survey was sufficient to make statistically significant determinations of differences with respect to the findings described in the second and third BBA statements.

Statement 2: Frailty of For-Profit PACE Participants

Using information from a survey administered to participants or participants' proxies, we examined six activities of daily living (ADLs) (Table 1) in order to assess relative levels of frailty between for-profit and not-for-profit PACE participants. We first observed that there were differences in the rate of proxy respondents between these two populations. Proxy respondents made up a greater proportion of the not-for-profit participant survey sample (43%) than the for-profit sample (32%). It is unclear why more not-for-profit participants used the assistance of proxies to help answer the survey. Because proxy respondents are known to answer these types of questions differently than self-responders[d], the responses on the frailty items were analyzed separately for the two types of responders. Respondents were classified into one of four ADL categories, reflecting increasing levels of frailty: participants with zero ADLs, those with 1 or 2 ADLs, those with 3 or 4 ADLs, and those with 5 or 6 ADLs. In other words, participants in the zero ADL category did not report requiring help with any ADLs whereas participants in the 5 or 6 ADLs category reported requiring help with 5 or 6 ADLs. As Table 1 illustrates, there was no statistically significant difference in frailty between the for-profit participants and the not-for-profit participants when we compared them within each of the two types of responders. Thus, we cannot conclude that for-profit responders are less frail within these groups.

Statement 3: Access to and Quality of Care for For-Profit PACE Participants

There is not a single, all-encompassing item or measure that can be used to determine whether access to or quality of care for participants is lower for those enrolled with for-profit PACE organizations. As such, the for-profit PACE study collected and analyzed 35 self-reported access to care and quality of care measures that were included in both the descriptive and multivariate analyses (Tables 2-5).

The analyses were performed on the survey results in two parts. The first part was a descriptive analysis to examine the relationship between two variables without any adjustments

[d] Andersen EM, Fitch CA, McLendon PM and Meyers AR. Reliability and Validity of Disability Questions in the US Census 2010. American Journal of Public Health; Aug 2000; 90(8); 1297.
Todorov A and Kirchner C. Bias in Proxies' Reports of Disability: Data From the national Health Interview Survey on Disability. American Journal of Public Health; Aug 2000; 90(8); 1248
Magaziner J, Zimmerman SI, Gruber-Baldini AL, Hebel R and Fox KM. Proxy Reporting in Five Areas of Functional Status: Comparison with Self-Reports and Observations of Performance. American Journal of Epidemiology: June, 1997; 146:418.

to account for the differences in populations (Tables 2 and 3). The second part was a multivariate analysis in which participant characteristics were used to adjust for factors that could confound the results (Tables 4 and 5).

There was no statistically significant difference between the for-profit PACE organizations and not-for-profit PACE organizations on a majority of the measures. Further, for measures where there were differences, we are unable to conclude that the findings are directly attributable to the care delivered by the PACE organizations. Rather, several underlying differences between the two sets of PACE participants were found, reflecting the different population characteristics prevalent in the PACE organization service areas. These confounding population-level characteristics are likely associated with the observed differences in access to and quality of care measures. The participants receiving care from the for-profit PACE organizations were more likely to live independently versus in an assisted living facility or an institutional setting, such as a nursing home. They also lived in less urban areas in Pennsylvania, and may not have had access to the same amount and diversity of medical providers. It is possible that some of the differences in participant experiences, such as "fallen in the past six months" or "injured by a fall in the past six months," may be due to living independently in the community and living in less urban areas; thus, these differences are not likely a reflection of the care provided by the for-profit PACE organizations.

Participants from both groups reported high levels of satisfaction of care. For each of the unadjusted measures collected on this topic, over 90% of participants from the two populations were satisfied or very satisfied; this included reporting on overall care at the PACE centers, coordination of care, and viewing participants as people.

The study also examined whether participants received help from PACE staff if they required help and, if they did receive help, had unmet needs (Table 6). For-profit PACE participants were consistently more likely to receive help from staff than not-for-profit PACE participants, indicating better access to care and quality of care, although this was only statistically significant for one item – receiving help with eating. For those receiving help from the PACE staff, a larger percentage of for-profit PACE participants reported unmet needs in five of the six ADLs; however, only unmet needs relating to getting around and using the bathroom were statistically significant. Given the mixed picture, we cannot conclude that the unmet needs were related to the access to or quality of care received from the for-profit PACE organizations.

We cannot conclude based on the overall pattern of results that there is any systematic difference in quality of or access to care between participants from for-profit and not-for-profit PACE organizations.

Statement 4: Expenditures of For-Profit PACE Participants

Prospective payment for for-profit PACE organizations is calculated using the same methodology as not-for-profit PACE organizations. Therefore, expenditures were equal between for-profit and not-for-profit PACE organizations after controlling for beneficiary risk score, organization frailty score, and county rates so there would not have been an increase in expenditures if the for-profit PACE participants had been enrolled with a not-for-profit PACE organization.

Conclusion

With respect to the BBA statements, the Department of Health and Human Services (HHS) cannot conclude that any of the four statements are true. The number of covered lives enrolled with for-profit PACE organizations is not fewer than 800 and the sample size for the survey examining BBA statements two and three was large enough to make statistically significant determinations of differences. We cannot conclude that for-profit PACE participants are less frail than not-for-profit PACE participants. We also cannot conclude that for-profit PACE participants experienced systematic adverse differences in quality of care or access to care as compared to not-for-profit PACE participants. Finally, expenditures were equal between for-profit and not-for-profit PACE organizations after controlling for beneficiary risk score, organization frailty score, and county rates so there would not have been an increase in expenditures if the for-profit PACE participants had been enrolled with a not-for-profit PACE organization.

We cannot conclude that any of the BBA statements are true. As such, under sections 1894(a)(3)(B) and 1934(a)(3)(B) of the Act, after the date this report is submitted to Congress, the requirement that a PACE organization be a not-for-profit entity will not apply.

Table 1. Comparison of Limitations of ADLs by For-Profit Status, controlling for Proxy vs. Self-Respondents

ADLs by For-Profit Status (Holding Respondent Type (Self vs Proxy) Constant)

Proxy

ADLs	0	1 - 2	3 - 4	5 -6	Sub-Tot
For -Profit	12	26	37	32	107
Not-For-Profit	18	33	38	52	141
Sub-Total	30	59	75	84	**248**

p-value = 0.53

Self

ADLs	0	1 - 2	3 - 4	5 -6	Sub-Tot
For -Profit	117	79	23	7	226
Not-For-Profit	94	56	24	11	185
Sub-Total	211	135	47	18	**411**

p-value = 0.35

Source: Responses obtained from PACE participants through a survey administered by Mathematica from November 2012 through March 2013.

Table 2. Descriptive Analysis of Access to and Quality of Care by For-Profit Status (percentage)

Measures of Access and Quality	For-Profit PACE	Not-For-Profit PACE
Care Management		
Pain Most or All of the Time	33.3	29.0
Severe Pain	19.3 **	14.0 **
Fallen in Past 6 Months	41.1	37.4
Injured by a Fall in Past 6 Months	17.3	13.9
Lost 10 or More Pounds (unintentional)	16.8 **	22.7 **
Takes a Great Deal of Energy to Get Services	57.2 ***	48.8 ***
Good or Very Good Reassurance/Emotional Support[a]	7.9	9.9
PACE Caregivers Paid Attention All of the Time[a]	54.6	60.8
Personal Care Needs Taken Care of All of the Time[a]	70.8	66.6
PACE Caregivers Completed All Work Most or All of the Time[a]	90.5	92.4
PACE Caregivers Rushed Through their Work None of the Time[a]	48.2	56.2
Signed Durable Power of Attorney or Living Will	79.8	82.5
Health Utilization		
Living in Group Home, Assisted Living Facility, or Nursing Home	7.7 ***	18.2 ***
Admitted to a Hospital in the Past Year	22.0 ***	29.1 ***
Nursing Home Stay in the Past Year	14.2 ***	29.1 ***
Flu Shot since Sept. 2012 (6 months, coincides with winter)	78.3 ***	85.0 ***
Flu Shot or Offered and Refused	95.5	96.0
Pneumonia Vaccination	78.6	82.3
Hearing Tested Regularly (at least once per year)	53.6	55.7
Eyesight Tested Regularly (at least once per year)	71.1 ***	83.0 ***

Source: Responses obtained from PACE participants through a survey administered by Mathematica from November 2012 through March 2013.

[a] The questions are conditional on the respondent receiving some type of direct assistance on any ADL from a PACE caregiver.

* 10% significance level.
** 5% significance level.
*** 1% significance level.

Table 3. Descriptive Analysis of Quality of Care Satisfaction Measures by For-Profit Status (percentage)

Measures of Quality	For-Profit PACE	Not-For-Profit PACE
Satisfaction Measures		
Visited the PACE Center in the Past Month	89.5 ***	80.9 ***
- Satisfied or very satisfied with overall care	91.4 **	94.8 **
Received Therapy at PACE Center	75.3 ***	59.5 ***
- Satisfied or very satisfied with therapy	96.3	96.4
Received Therapy Outside of PACE	13.2 *	17.1 *
- Satisfied or very satisfied with therapy	93.0	94.0
Satisfied or Very Satisfied with Information from MDs	90.9 **	94.0 **
Satisfied or Very Satisfied with Information on meds	96.1 **	98.2 **
Satisfied or Very Satisfied with Coordination	93.2 ***	96.7 ***
Always Received Transportation Help when Needed	89.7	90.0
Satisfied or Very Satisfied with Transportation Help	96.1 *	98.0 *
Satisfied or Very Satisfied with Respect	93.2	95.3
Satisfied or Very Satisfied with How Viewed as a Person[a]	96.8	95.6
Always Specialist Appt. when Needed	56.1 *	64.2 *
Not Enough Specialists	54.8 ***	34.6 ***
Could not See a Specialist	24.0 **	16.4 **
Satisfied or Very Satisfied with Specialist Care	94.0 *	97.1 *

Source: Responses obtained from PACE participants through a survey administered by Mathematica from November 2012 through March 2013.

[a] The question is conditional on the respondent receiving some type of direct assistance on any ADL from a PACE caregiver.

* 10% significance level.
** 5% significance level.
*** 1% significance level.

Table 4. Marginal Associations Between For-Profit Status and Care Management and Health Utilization

Access/Quality Variables	Association with For-Profit PACE Status[a]	Standard Error
Care Management		
Pain Most or All of the Time	2.7	3.4
Severe Pain	1.8	2.7
Fallen in Past 6 Months	10.5	3.5***
Injured by Fall in Past 6 Months	5.8	2.7**
Lost 10 or More Pounds (unintentional)	-4.7	3.0
Takes a Great Deal of Energy to Get Services	9.5	3.8**
Good or Very Good Reassurance/Emotional Support[b]	-1.2	3.7
PACE Caregivers Paid Attention All of the Time[b]	-11.7	7.4
Personal Care Needs Taken Care of All of the Time[b]	5.0	6.9
PACE Caregivers Completed All Work Most or All of the Time[b]	-0.1	4.1
PACE Caregivers Rushed Through Their Work None of the Time[b]	-7.4	7.5
Signed Durable Power of Attorney or Living Will	0.3	2.4
Health Utilization		
Living in Group Home, Assisted Living Facility, or Nursing Home	-9.8	2.4***
Flu Shot since Sept. 2012 (6 months, coincides with winter)	-9.8	3.0***
Flu Shot or Offered and Refused	-2.1	1.8
Pneumonia Vaccination	-5.7	2.9**
Hearing Tested Regularly (at least once per year)	0.2	3.7
Eyesight Tested Regularly (at least once per year)	-13.9	2.9***

Source: Responses obtained from PACE participants through a survey administered by Mathematica from November 2012 through March 2013.

a The values represent the percentage point change in the measure of access or quality associated with a participant being in a for-profit PACE program.

b The questions are conditional on the respondent receiving some type of direct assistance on any ADL from a PACE caregiver.

* 10% significance level.

** 5% significance level.

*** 1% significance level.

Table 5. Marginal Associations Between For-Profit Status and Satisfaction Measures

Access/Quality Variables	Association with For-Profit PACE Status[a]	Standard Error
Satisfaction Measures		
Visited the PACE Center in the Past Month	4.3	2.4*
- Satisfied or very satisfied with overall care	-3.3	1.9*
Received Therapy at PACE Center	12.9	3.5***
- Satisfied or very satisfied with therapy	-0.4	1.7
Received Therapy Outside of PACE	-2.4	2.8
- Satisfied or very satisfied with therapy	5.2	2.5**
Satisfied or Very Satisfied with Information from MDs	-3.2	1.8*
Satisfied or Very Satisfied with Information on Meds	-3.4	1.0***
Satisfied or Very Satisfied with Coordination	-3.1	1.3**
Always Received Transportation Help when Needed	0.7	2.1
Satisfied or Very Satisfied with Transportation Help	-1.0	1.2
Satisfied or Very Satisfied with Respect	-4.2	1.7**
Satisfied or Very Satisfied with How Viewed as a Person[b]	0.0	2.2
Always Specialist Appt. when Needed	-16.0	4.9***
Not Enough Specialists	16.2	5.1***
Could not See a Specialist	8.1	4.0**
Satisfied or Very Satisfied with Specialist Care	-1.0	2.0

Source: Responses obtained from PACE participants through a survey administered by Mathematica from November 2012 through March 2013.

[a] The values represent the percentage point change in the measure of access or quality associated with a participant being in a for-profit PACE program.

[b] The question is conditional on the respondent receiving some type of direct assistance on any ADL from a PACE caregiver.

* 10% significance level.
** 5% significance level.
*** 1% significance level.

Table 6. Comparison of Limitations of ADLs and Help with ADLs by For-Profit Status (percentage)

ADLs	For-Profit PACE	Not-For-Profit PACE
Eating		
Required Help with Eating	16.6	20.3
Received Help with Eating from PACE Staff[a]	70.2 *	53.8 *
Unmet Needs Related to Eating[b]	16.8	7.2
Getting Around Indoors		
Required Help Getting Around	26.4 ***	35.2 ***
Received Help Getting Around from PACE Staff[a]	66.0	53.4
Unmet Needs Related to Getting Around[b]	18.5 *	8.3 *
Getting Dressed		
Required Help Getting Dressed	37.2	40.6
Received Help Getting Dressed from PACE Staff[a]	64.4	55.9
Unmet Needs Related to Getting Dressed[b]	6.7	7.1
Bathing		
Required Help Bathing	46.6 **	53.6 **
Received Help Bathing from PACE Staff[a]	73.3	69.0
Unmet Needs Related to Bathing[b]	8.5	8.1
Using the Bathroom		
Required Help Using the Bathroom	24.5 ***	34.1 ***
Received Help Using the Bathroom from PACE Staff[a]	64.3	61.6
Unmet Needs Related to Using the Bathroom[b]	27.3 *	14.5 *
Getting In and Out of Bed		
Required Help Getting In and Out of Bed	19.2 ***	31.0 ***
Received Help Getting In and Out of Bed from PACE Staff[a]	52.3	48.6
Unmet Needs Related to Getting In and Out of Bed[b]	14.9	6.0

Source: Responses obtained from PACE participants through a survey administered by Mathematica from November 2012 through March 2013.

[a] The responses are conditional on the participants requiring help for the ADL.

[b] The responses are conditional on the participants receiving help for the ADL.

* 10% significance level.
** 5% significance level.
*** 1% significance level.

References

Beauchamp, Jody, Valerie A. Cheh, Robert J. Schmitz, Peter Kemper, and John W. Hall. "The Effect of the Program of All-Inclusive Care for the Elderly (PACE) on Quality." Princeton, NJ: Mathematica Policy Research, February 12, 2008.

Leavitt, Michael O. "Interim Report to Congress: The Quality and Cost of the Program of All-Inclusive Care for the Elderly." Secretary of Health and Human Services, 2009.

Jones, David, Nancy Duda, Bob Schmitz, Sandi Nelson, Chelsea Swete, Alex Bryce, Jared Coopersmith, and Karen CyBulski. "Study of Access and Quality of Care in For-Profit PACE" Princeton, NJ: Mathematica Policy Research, October 11, 2013.

Attachment 4

	VMG Report MidPoint (000's)	VMG Report Low (000's)
FMV PACE Programs	$131,050	$124,500
FMV Solutions	16,040	15,240
FMV Homecare	670	500
FMV Real Estate	56,550	53,400
Total FMV	204,310	193,640
Plus Working Capital Surplus	47,260	47,260
FMV Plus WC Surplus	251,570	240,900
Less: Interest-Bearing Debt	(910)	(910)
FMV Plus WC Surplus	**$250,660**	**$239,990**
Less: Bond Defeasance	(37,190)	(37,190)
FMV After Bond Defeasance	**$213,470**	**$202,800**
Purchase Price	186,378	186,378
Plus Excess Cash (Estimated at 9/30/15)	21,802	21,802
Total	**$208,180**	**$208,180**
Difference FMV vs Purchase Price	**($5,290)**	**$5,380**

Attachment 5

Kevin McDonough, CFA
Managing Director
kevinm@vmghealth.com

FINAL REPORT

TOTAL COMMUNITY OPTIONS, INC. D/B/A INNOVAGE

FAIR MARKET VALUE ANALYSIS EXECUTIVE SUMMARY
NOVEMBER 24, 2015

STRICTLY PRIVATE & CONFIDENTIAL

VMG HEALTH
WE VALUE HEALTHCARE

BUSINESS VALUATION • PROFESSIONAL SERVICES VALUATIONS • ASSET APPRAISALS • REAL ESTATE • TRANSACTION ADVISORY • CONSULTING
DALLAS • NASHVILLE

Project Overview

Value Management Group, LLC d/b/a VMG Health ("VMG") has been engaged by Total Community Options d/b/a InnovAge ("InnovAge" or the "Company") to provide a third party, independent Fair Market Value ("FMV") analysis of the Company, as of the current date. The following key steps and procedures were completed:

Reviewed & Analyzed Historical Financial & Operational Data

↓

Conducted Management Interviews

↓

Valued InnovAge Utilizing All Three Approaches to Value (Cost, Market, Income)

↓

Selected the Appropriate Valuation Methodology

↓

Provided a Conclusion of our FMV Opinion

Qualifying Assumptions

- ✓ VMG individually valued the three main service lines of InnovAge: PACE Programs, Homecare and Solutions as well as the related real estate owned by InnovAge.
- ✓ VMG relied upon data provided by InnovAge for our historical productivity and financial reports. VMG has not independently audited or confirmed the accuracy of the data provided. We are relying on the data as materially true and correct.
- ✓ The indications of fair market value presented in this analysis assume a transaction involving an enterprise level ownership interest in InnovAge.
- ✓ Total Invested Capital, or TIC, reflects the value of InnovAge assuming zero debt and inclusive of a normalized level of working capital. Working capital is defined as current assets minus current liabilities. Working capital includes cash, accounts receivable and other current assets that permit a business to conduct day-to-day operations and maintain liquidity.
- ✓ In addition to illustrating value at the total invested capital level, the value of InnovAge is shown at the equity level, which can be calculated as TIC less interest-bearing debt.
- ✓ As of the June 30, 2015 balance sheet, the PACE Program had a considerable amount of excess cash. The value of this excess cash is estimated to equal approximately $47.3 million and is included in our conclusion of FMV.
- ✓ Three distinct approaches to value were explored for all of the InnovAge service line valuations - Cost, Market, & Income Approaches. Ultimately, 100% reliance was placed upon the Income Approach (Discounted Cash Flow Analysis) for all three InnovAge service lines (PACE Programs, Homecare and Solutions). It was our determination that the Cost Approach did not provide adequate consideration to the going concern value of the InnovAge's service lines. Furthermore, the Market Approach was deemed inappropriate as similar publicly traded companies are not comparable from a size or growth standpoint and limited information is available regarding private transactions involving comparable entities.

Valuation Conclusion

Based on and subject to the facts, limiting conditions, and assumptions presented in this report and attached exhibits, as of the report date, the FMV of the total invested capital ("TIC") of InnovAge is reasonably represented as **$204.3 million**. As of the June 30, 2015 balance sheet, the PACE Program had a considerable amount of working capital surplus. The value of this working capital surplus is estimated to equal approximately $47.3 million and is included in our conclusion of the FMV. Equity is defined as TIC less interest-bearing debt. Homecare had approximately $910,000 of interest-bearing debt as of the June 30, 2015 balance sheet. Therefore, the FMV of the equity of InnovAge, including the working capital surplus, can be reasonably represented at approximately **$250.7 million**. In addition, we understand that management will pursue bond defeasance in the amount of $37.2 million. After netting this from the valuation, total value equals **$213.5 million**. We have then applied a +/- 5.0% value range arrive at an equity value range of approximately **$202.8 million to $224.1 million.**

Fair Market Value Summary	Rounded ($)
Fair Market Value of the PACE Programs, Total Invested Capital Level	$131,050,000
Fair Market Value of Solutions, Total Invested Capital Level	$16,040,000
Fair Market Value of Homecare, Total Invested Capital Level	$670,000
Fair Market Value of Real Estate, Total Invested Capital Level	$56,550,000
Fair Market Value of InnovAge, Total Invested Capital Level	$204,310,000
Plus: Working Capital Surplus	47,260,000
Fair Market Value of InnovAge, Total Invested Capital Level, Plus Working Capital Surplus	251,570,000
Less: Interest-Bearing Debt Outstanding as of June 30, 2015	(910,000)
Fair Market Value of InnovAge, Enterprise Equity Level, Plus Working Capital Surplus	250,660,000
Less: Bond Defeasance per InnovAge Management Indications	(37,190,000)
Fair Market Value of InnovAge, Enterprise Equity Level, Plus Working Capital Surplus less Bond Defeasance	213,470,000

Enterprise TIC Level Plus Working Capital Surplus Range (+/- 5.0%) (Rounded):		
Low	Mid	High
$239,000,000	$251,570,000	$264,100,000

Enterprise Equity Level, Excluding Working Capital Surplus and Bond Defeasance (+/- 5.0%) (Rounded):		
Low	Mid	High
$202,800,000	$213,470,000	$224,100,000

FINAL REPORT

TOTAL COMMUNITY OPTIONS, INC. D/B/A INNOVAGE

VALUATION OVERVIEW

VMG HEALTH
WE VALUE HEALTHCARE

Valuation Methodologies & Assumptions

IRS Revenue Ruling 59-60 is a landmark ruling by the IRS that provides general guidelines for the valuation of closely held companies. We define FMV as established by IRS Revenue Ruling 59-60 as "the amount at which property would change hands between a willing seller and a willing buyer when neither is acting under compulsion and when both have reasonable knowledge of all relevant facts and circumstances." IRS Revenue Ruling 59-60 calls for examination of the following elements in connection with InnovAge:

- The nature and history of InnovAge from inception;
- The economic outlook in general and the outlook for the specific specialty area and market area of InnovAge;
- The financial condition of InnovAge;
- The earning capacity of InnovAge;
- The dividend paying capacity of InnovAge;
- The goodwill or other intangible value of InnovAge;
- Prior sales of the stock and the size of the block of stock to be valued; and,
- The market prices of centers in the same or similar specialty areas.

In light of the general guidelines set forth in IRS Revenue Ruling 59-60, VMG's investigation and analysis includes the following:

- Interviews with management concerning past, present and prospective operating results of InnovAge;
- Analysis of the financial condition and historical operating and financial performance of InnovAge;
- Consideration of the economic outlook in general and the outlook for the specific specialty area and market area of InnovAge;
- With the assistance of center personnel, our analysis estimates the earning and dividend paying capacity of InnovAge; and,
- Consideration of the Cost, Market, and Income Approaches to value.

As discussed, we have considered the use of the Cost, Market, and Income Approaches to value. The following briefly describes each approach:

- Cost Approach - estimates the cost to recreate a business;
- Market Approach - estimates value by examining the value of similar businesses in a free and open market; and,
- Income Approach - estimates value by projecting a future income stream attributable to a business and then discounts those earnings back to present value.

Each approach is suitable in different situations. The subsequent sections of this report provide the benefits and challenges of using the three approaches.

Selection of the Income Approach

Income Approach

- Discounted cash flow analysis
- Flexible model tailored to specific business
- Incorporates growth and risks on expected performance
- Approach **RELIED UPON** given the expected future free cash flows specific to InnovAge generate a value higher than the underlying Assets

Cost (Asset) Approach

- Tangible asset value
- 'Floor' value
- Approach **NOT RELIED UPON** as it does not consider the going concern, earnings generating capacity of InnovAge

Market Approach

- 'Multiple' Approach
- Application of observed market multiples to business
- Approach **NOT RELIED UPON** given the inability to identify comparable transactions

FINAL REPORT

TOTAL COMMUNITY OPTIONS, INC. D/B/A INNOVAGE

INCOME APPROACH

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General Assumptions

The Income Approach provides for two general methods for determining value: the capitalization of a single period's net cash flow or the discounting of several future periods' net cash flow. We have employed the multi-period method (the discounted cash flow method) which allows for the forecasting of a finite period of annual net cash flows. An important assumption of any method of the Income Approach is that the business or asset being valued remains a going concern.

The first step of the discounted cash flow methodology is to estimate the net cash flows available to the firm (total invested capital level). For purposes of the discounted cash flow methodology employed in our analysis, we have defined net cash flow as follows:

- Earnings before interest, taxes, depreciation, and amortization ("EBITDA")
- Less: depreciation, amortization, and other applicable non-cash expenses
- Less: applicable federal and state income taxes payable
- Plus: depreciation, amortization, and other applicable non-cash expenses
- Less: incremental capital expenditure requirements
- Less: incremental working capital requirement
- Equals: net cash flow to invested capital

Because we are calculating net cash flow to invested capital, we have eliminated interest expense in the projection period. Estimated net cash flows are projected for five years and then into perpetuity. The projected or future net cash flows are then discounted to arrive at a present value. The discount rate (also known as the required rate of return, cost of capital, or hurdle rate) incorporates the estimated time value of money, inflation, and the risks associated with the business entity. As mentioned before, this approach is based on the fundamental valuation principle that the value of a business is equal to the present value (or worth) of the future benefits of ownership.

Please see the following pages for more detail on the application of the Income Approach.

Normalized Base Year – PACE Program

	Footnotes	FYE 2015	Adjustments	Normalized Base Year	FYE 2015	Normalized Base Year
Revenue:						
Capitation Revenues		$195,673,049	-	$195,673,049	99.7%	99.7%
Provision for Doubtful Accounts		(8,707)	-	(8,707)	(0.0%)	(0.0%)
Grant Revenues		274,576	-	274,576	0.1%	0.1%
Other Operating Revenues		342,549	-	342,549	0.2%	0.2%
Total Net Operating Revenue		196,281,468	-	196,281,468	100.0%	100.0%
Operating Expenses:						
Salaries & Wages						
Salaries & Wages - IGCP		26,164,291	-	26,164,291	13.3%	13.3%
Salaries & Wages - IGCAP		2,270,203	-	2,270,203	1.2%	1.2%
Salaries & Wages - IGNMP		4,921,277	-	4,921,277	2.5%	2.5%
Total		33,355,771	-	33,355,771	17.0%	17.0%
Employee Benefits						
Employee Benefits - IGCP		6,386,868	-	6,386,868	3.3%	3.3%
Employee Benefits - IGCAP		446,287	-	446,287	0.2%	0.2%
Employee Benefits - IGNMP		1,181,636	-	1,181,636	0.6%	0.6%
Total		8,014,791	-	8,014,791	4.1%	4.1%
Participant Expenses						
Participant Expenses - IGCP		79,539,155	-	79,539,155	40.5%	40.5%
Participant Expenses - IGCAP		2,100,366	-	2,100,366	1.1%	1.1%
Participant Expenses - IGNMP	1	13,589,201	(1,012,218)	12,576,983	6.9%	6.4%
Total		95,228,721	(1,012,218)	94,216,504	48.5%	48.0%
Purchased Services and Contracts						
Purchased Services and Contracts - IGCP		3,164,186	-	3,164,186	1.6%	1.6%
Purchased Services and Contracts - IGCAP		1,122,111	-	1,122,111	0.6%	0.6%
Purchased Services and Contracts - IGNMP		314,470	-	314,470	0.2%	0.2%
Total		4,600,767	-	4,600,767	2.3%	2.3%
Facility and Maintenance						
Facility and Maintenance - IGCP	2	2,349,355	(510,701)	1,838,654	1.2%	0.9%
Facility and Maintenance - IGCAP	2	883,527	(634,743)	248,784	0.5%	0.1%
Facility and Maintenance - IGNMP	2	559,777	(89,860)	469,917	0.3%	0.2%
Total		3,792,659	(1,235,304)	2,557,355	1.9%	1.3%

Normalized Base Year – PACE Program

	Footnotes	FYE 2015	Adjustments	Normalized Base Year	FYE 2015	Normalized Base Year
Supplies and Other						
Supplies and Other - IGCP		3,284,557	-	3,284,557	1.7%	1.7%
Supplies and Other - IGCAP		284,234	-	284,234	0.1%	0.1%
Supplies and Other - IGNMP		580,617	-	580,617	0.3%	0.3%
Total		4,149,407	-	4,149,407	2.1%	2.1%
Allocations						
Allocations - IGCP	*3*	21,440,839	(952)	21,439,886	10.9%	10.9%
Allocations - IGCAP	*3*	828,668	(37)	828,632	0.4%	0.4%
Allocations - IGNMP	*3*	3,203,765	(223)	3,203,542	1.6%	1.6%
Total		25,473,271	(1,212)	25,472,059	13.0%	13.0%
Facility Rent						
Facility Rent - IGCP	*4*	-	3,451,185	3,451,185	-	1.8%
Facility Rent - IGCAP	*4*	-	667,282	667,282	-	0.3%
Facility Rent - IGNMP	*4*	-	439,600	439,600	-	0.2%
Total		-	4,558,067	4,558,067	-	2.3%
Total Operating Expenses		174,615,390	2,309,333	176,924,722	89.0%	90.1%
Operating Margin		21,666,079	(2,309,333)	19,356,746	11.0%	9.9%
Other Income (Expense)	*5*	2,021,471	(1,040,889)	980,582	1.0%	0.5%
EBITDA		23,687,550	(3,350,222)	20,337,328	12.1%	10.4%
Depreciation & Amortization Expense	*6*	4,138,313	(2,859,072)	1,279,241	2.1%	0.7%
Interest Expense	*7*	1,988,914	(1,988,914)	-	1.0%	-
Earnings Before Income Taxes		17,560,323	1,497,764	19,058,087	8.9%	9.7%
Federal & State Income Tax Expense	*8*	-	7,243,883	7,243,883	-	3.7%
Earnings After Income Taxes		$17,560,323	($5,746,120)	$11,814,203	8.9%	6.0%

Sources: Management provided financials for the fiscal years ended June 30, 2012, 2013, 2014, and the 12 month period ended June 30, 2015 Normalized base year based on the FYE period ended June 30, 2015. Normalized Base Year eliminates any unusual or nonrecurring items from revenues and expenses.

Normalized Base Year Footnotes – PACE Program

Footnotes to Normalized Base Year Income Statement	
Footnote	Description
1	Participant expenses for IGNMP were temporarily high in the previous year but are expected to shift back to historical levels. Participant expenses have been adjusted to previous expense rates as a percent of IGNMP revenue.
2	Facility and Maintenance costs reflect building and equipment maintenance, utilities, vehicle leases, maintenance and certain facility rent. For projection purposes, all expenses related to facility rent have been adjusted out of this expense line item and are re-categorized separately under the Facility Rent line item.
3	Allocations expense is representative of a management fee paid to InnovAge's wholly-owned management services provider, Total Longterm Care Solutions, LLC. Based on discussions with management, future allocated costs for management services provided will equate to 13.0% of net revenue for each of the supported business units.
4	Facility Rental Expense is based on square footage provided by management and per square foot rental rates as estimated by VMG appraisal personnel. Please note that these are currently not FMV rental rates and are subject to additional due diligence prior to finalizing this valuation opinion.
5	Other income (expense) is primarily related to ongoing investment income. In addition to investment income, as of the TTM period there was also unrealized gains. For projection purposes, investment income has been reduced to exclude these unrealized gains and further reduced by approximately one-half to reflect the exclusion of certain Surplus Working Capital from the contributed business.
6	Depreciation expense adjusted based on normalized fixed asset base and VMG estimates regarding economic life.
7	Eliminated interest expense to derive debt-free operations.
8	Calculated a blended federal and state income tax rate for Colorado businesses to be applied to the earnings before taxes.

Discounted Cash Flow Analysis – PACE Program

	FYE 2012	FYE 2013	FYE 2014	FYE 2015	Normalized Base Year	Projection Period Year 1	Year 2	Year 3	Year 4	Year 5	Terminal Year
Revenue:											
Capitation Revenues	$154,050,900	$163,804,024	$179,371,426	$195,673,049	$195,673,049	$217,521,100	$238,485,570	$274,023,209	$309,223,911	$319,024,739	
Provision for Doubtful Accounts	(2,616,900)	(657,516)	(117,328)	(8,707)	(8,707)	(9,677)	(10,607)	(12,185)	(13,747)	(14,182)	
Grant Revenues	227,800	275,251	250,728	274,576	274,576	282,932	291,400	300,123	309,109	318,366	
Other Operating Revenues	853,400	483,175	182,908	342,549	342,549	352,826	363,411	374,313	385,542	397,109	
Total Net Operating Revenue	152,515,200	163,904,934	179,687,734	196,281,468	196,281,468	218,147,180	239,129,773	274,685,460	309,904,816	319,726,031	329,317,812
Operating Expenses:											
Salaries & Wages	26,237,000	27,539,240	30,130,766	33,355,771	33,355,771	35,750,168	39,188,887	45,034,898	50,824,185	52,414,918	
Employee Benefits	5,821,400	5,844,413	7,026,675	8,014,791	8,014,791	8,722,909	9,573,695	11,022,833	12,457,750	12,848,762	
Participant Expenses	76,564,500	80,479,310	87,377,651	95,228,721	94,216,504	105,547,298	112,648,687	129,662,575	146,069,943	150,649,321	
Purchased Services and Contracts	3,334,800	3,199,251	5,125,242	4,600,767	4,600,767	5,143,938	7,742,684	11,095,758	14,598,598	15,173,802	
Facility and Maintenance	3,125,000	3,395,407	3,795,143	3,792,659	2,557,355	2,634,076	2,713,098	2,794,491	2,878,325	2,964,675	
Supplies and Other	4,025,500	4,977,854	4,581,752	4,149,407	4,149,407	4,349,964	4,480,463	4,614,877	4,753,323	4,895,923	
Allocations	14,025,000	18,311,493	23,102,826	25,473,271	25,472,059	28,313,266	31,039,627	35,660,449	40,237,506	41,512,760	
Facility Rent	-	-	-	-	4,558,067	4,649,228	4,742,213	4,837,057	4,933,798	5,032,474	
Total Operating Expenses	133,133,200	143,746,968	161,140,056	174,615,390	176,924,722	195,110,847	212,129,354	244,722,938	276,753,429	285,492,636	
Operating Margin	19,382,000	20,157,966	18,547,678	21,666,079	19,356,746	23,036,333	27,000,419	29,962,521	33,151,387	34,233,396	
Other Income (Expense)	177,200	2,054,961	3,481,939	2,021,471	980,582	1,009,999	1,040,299	1,071,508	1,103,654	1,136,763	
EBITDA	19,559,200	22,212,927	22,029,618	23,687,550	20,337,328	24,046,333	28,040,718	31,034,030	34,255,041	35,370,159	36,431,264
Depreciation & Amortization Expense	3,078,500	3,394,102	4,089,317	4,138,313	1,279,241	1,436,384	1,764,955	2,129,241	2,543,527	2,993,527	3,300,000
Interest Expense	1,992,900	1,716,361	1,995,458	1,988,914	-	-	-	-	-	-	-
Earnings Before Income Taxes	14,487,800	17,102,464	15,944,843	17,560,323	19,058,087	22,609,949	26,275,763	28,904,788	31,711,514	32,376,632	33,131,264
Federal & State Income Tax Expense @ 38.0%	-	-	-	-	7,243,883	8,593,928	9,987,286	10,986,566	12,053,388	12,306,196	12,593,028
Earnings After Income Taxes	14,487,800	17,102,464	15,944,843	17,560,323	11,814,203	14,016,020	16,288,477	17,918,223	19,658,126	20,070,436	20,538,236
Cash Flow Adjustments:											
Plus: Depreciation & Amortization						1,436,384	1,764,955	2,129,241	2,543,527	2,993,527	3,300,000
Less: Required Annual Capital Expenditures						(2,200,000)	(2,400,000)	(2,700,000)	(3,100,000)	(3,200,000)	(3,300,000)
Less: Incremental Working Capital Requirements						(3,279,857)	(3,147,389)	(5,333,353)	(5,282,903)	(1,473,182)	(1,438,767)
Net Discretionary Cash Flow						9,972,547	12,506,043	12,014,111	13,818,749	18,390,781	19,099,469
Terminal Value											159,162,241
						0.5	1.5	2.5	3.5	4.5	4.5
Present Value Factor (mid-point convention)						0.9325	0.8109	0.7051	0.6131	0.5332	0.5332
Present Value of Cash Flows						$9,299,448	$10,140,822	$8,471,241	$8,472,787	$9,805,277	$84,859,362
Sum of Present Values (Year 1 to Year 5)						$46,189,576	35.2%	2.3x	NBY EBITDA	1.9x	YR 1 EBITDA
Present Value of Terminal						$84,859,362	64.8%	4.2x	NBY EBITDA	3.5x	YR 1 EBITDA
Fair Market Value Indication (Total Invested Capital Level)						$131,048,938	100.0%	6.4x	NBY EBITDA	5.4x	YR 1 EBITDA

FINAL REPORT

Total Community Options, Inc. d/b/a InnovAge

Cost Approach

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Cost Approach – PACE Program

The Cost Approach, also known as the asset or build-up approach, is a method that attempts to value a business by identifying and valuing each tangible and intangible asset. The valuation premise used in this method may be one of the following:

- Value in continued use as part of a going concern;
- Value in place as part of a mass assemblage of assets; or,
- Value in exchange as part of an orderly disposition or forced liquidation.

The Cost Approach can be considered to provide a "floor" or lowest minimum value related to a business. This method may be an appropriate method when the Market Approach and Income Approach produce a value lower than the Cost Approach. In determining the applicability of the Cost Approach, we must also consider the earnings generated by the business as indicated in its historical and projected financial statements.

Under this approach, the identified tangible and intangible assets are valued based on the cost associated with "recreating" each asset. The asset components are examined and the related valuation assumptions for each are noted in the appendix.

Please the following page for an illustration of the PACE Program's Cost Approach value.

Cost Approach – PACE Program

As indicated below, the total invested capital valuation indication produced by the Cost Approach, as of the report date, is approximately **$38.4 million.** We **have not relied upon** the value indication produced by the Cost Approach because the Cost Approach does not necessarily attribute any value to the going-concern value for the PACE Programs, as demonstrated by the higher indicated values from both the Income and Market Approaches.

($$)		Book Value June 30, 2015	Adjustments	Estimated Value	% of TIC
Current Assets					
Cash and Cash Equivalents	*Estimated value based on June 30, 2015 balance sheet*	$51,761,989	-	$51,761,989	134.8%
Short-Term Investments - Commercial Paper	*Estimated value based on June 30, 2015 balance sheet*	14,799,606	-	14,799,606	38.6%
Assets Limited to Use - Held for Others	*Estimated value based on June 30, 2015 balance sheet*	26,895	-	26,895	0.1%
Assets Held by Trustee	*Estimated value based on June 30, 2015 balance sheet*	723,561	-	723,561	1.9%
Money Market - Board Designated	*Estimated value based on June 30, 2015 balance sheet*	107	-	107	0.0%
Accounts Receivable, net	*Estimated value based on June 30, 2015 balance sheet*	2,683,255	-	2,683,255	7.0%
Other Receivable	*Estimated value based on June 30, 2015 balance sheet*	833,960	-	833,960	2.2%
Intercompany Receivables	*Estimated value based on June 30, 2015 balance sheet*	31,269,450	-	31,269,450	81.5%
Inventory	*Estimated value based on June 30, 2015 balance sheet*	47,198	-	47,198	0.1%
Prepaid Expenses and Other	*Estimated value based on June 30, 2015 balance sheet*	519,134	-	519,134	1.4%
Total Current Assets		102,665,155	-	102,665,155	267.4%
Current Liabilities					
Accounts Payable	*Estimated value based on June 30, 2015 balance sheet*	5,129,026	-	5,129,026	13.4%
Reported and Estimated Claims	*Estimated value based on June 30, 2015 balance sheet*	7,252,553	-	7,252,553	18.9%
Due to Medicaid and Medicare	*Estimated value based on June 30, 2015 balance sheet*	8,783,080	-	8,783,080	22.9%
Accrued Compensation	*Estimated value based on June 30, 2015 balance sheet*	1,956,141	-	1,956,141	5.1%
Accrued Vacation	*Estimated value based on June 30, 2015 balance sheet*	1,662,360	-	1,662,360	4.3%
Other Accrued Expenses	*Estimated value based on June 30, 2015 balance sheet*	1,194,702	-	1,194,702	3.1%
Current Portion of Capital Lease Obligations	*Estimated value based on June 30, 2015 balance sheet*	729,492	(729,492)	-	-
Current Portion of Long-Term Debt	*Estimated value based on June 30, 2015 balance sheet*	585,000	(585,000)	-	-
Total Current Liabilities		27,292,354	(1,314,492)	25,977,862	67.7%
Total Current Level of Working Capital		75,372,800	1,314,492	76,687,293	199.8%
Adjustment to Reflect a Normalized Level of Working Capital					
Normalized Working Capital	Estimated at 15.0% of Net Revenue	76,687,293	(47,252,514)	29,434,779	76.7%
Total Normalized Working Capital				29,434,779	76.7%
Fixed Assets					
Land	*Estimated value based on February 28, 2014 management provided fixed asset summary*	5,798,160	(5,798,160)	-	-
Building and Leasehold Equipment	*Estimated value based on February 28, 2014 management provided fixed asset summary*	45,983,851	(44,685,123)	1,298,728	3.4%
Equipment and Vehicles	*Estimated value based on February 28, 2014 management provided fixed asset summary*	18,952,036	(11,296,076)	7,655,960	19.9%
Accumulated Depreciation	*Estimated value based on February 28, 2014 management provided fixed asset summary*	(17,804,389)	17,804,389	-	-
Total Fixed Assets		52,929,658	(43,974,970)	8,954,688	23.3%
Other Assets					
Board Designated Investment Fund	*Estimated value based on June 30, 2015 balance sheet; Not a transferrable economic asset*	26,183,901	(26,183,901)	-	-
Investments (CD's)	*Estimated value based on June 30, 2015 balance sheet; Not a transferrable economic asset*	7,140,051	(7,140,051)	-	-
Goodwill	*Estimated value based on June 30, 2015 balance sheet; Not a transferrable economic asset*	4,116,524	(4,116,524)	-	-
Note Receivable	*Estimated value based on June 30, 2015 balance sheet; Not a transferrable economic asset*	180,773	(180,773)	-	-
Deferred Financing Costs, net	*Estimated value based on June 30, 2015 balance sheet; Not a transferrable economic asset*	1,405,410	(1,405,410)	-	-
Debt Service Reserve	*Estimated value based on June 30, 2015 balance sheet; Not a transferrable economic asset*	2,606,236	(2,606,236)	-	-
Total Other Assets		41,632,895	(41,632,895)	-	-
Fair Market Value of the PACE Programs, Total Invested Capital Level		$171,249,845	($132,860,378)	$38,389,467	100.0%

FINAL REPORT

TOTAL COMMUNITY OPTIONS, INC. D/B/A INNOVAGE

MARKET APPROACH

VMG HEALTH

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Market Approach

General Assumptions

The Market Approach estimates value by comparing the value of similar assets, securities or services (collectively referred to as "the guidelines") traded in a free and open market to the subject asset, security or service. The underlying premise of the Market Approach to valuation is the economic principle of substitution – assets of similar utility should have similar value. The Market Approach relies on observable market data to estimate indications of value. Appropriate market comparisons can provide some evidence of the value of a business or a business interest. The Market Approach uses relative value measures such as "multiples", which are factors by which some fundamental financial variable is multiplied to derive a value indication.

In our application of the Market Approach, we considered three distinct market approach methods which include the guideline company method, the merger and acquisition method, and the individual transaction method. These methods are discussed in greater detail on the following pages. The paragraphs below provide a brief summary of each method used:

- **Guideline Company Method:** This method entails a comparison of the subject company to similar publicly traded companies. The comparison is generally based on published data regarding the public companies' stock price and earnings, sales, or revenues, which is expressed as a fraction known as a "multiple". The public companies identified for comparison purposes should be similar to the subject business in terms of industry, product, market, growth, and risk.

- **Merger & Acquisition Method:** This method reviews published data regarding actual transactions involving either minority or controlling interests in either publicly traded or closely held companies. In judging whether a reasonable basis for comparison exists, consideration must be given to such factors as the similarity of investment and investor characteristics, the extent to which reliable data is known about the considered transactions, and whether or not the price paid for the guideline companies was in an arms-length transaction, or a forced or distressed sale.

- **Internal Transaction Method:** This method is a mathematical relationship between or among variables which is derived through experience and observation or combination of these in a particular industry or industry segment. For this analysis, this method involves developing internal pricing multiples of individual transactions of similar companies in a specific marketplace.

Source: The Market Approach to Valuing a Business – Second Edition by Shannon Pratt

Market Approach

Guideline Company Method – PACE Program

The guideline company method estimates the value of a subject business by examining the value of similar businesses in a free and open market. The theory behind this approach is that companies with similar operating and financial characteristics should be priced similarly. These similar companies are referred to as "guideline" companies. In order to utilize this approach, similar businesses must be identified that have publicly available data. In determining comparable companies, several factors are considered, including but not limited to the following:

- Similarity of goods and services offered by the company;
- Size of the company, in terms of sales, assets, number of operating locations, etc.;
- Location of the company's operations (i.e. geographically dispersed concentration within a geographic area, etc.);
- Historical growth rates of the company; and,
- Capital structure of the company.

Once appropriate guideline companies are identified, their "value measures" are compiled and examined to determine how they may apply to the PACE Program. These "value measures" are usually a multiple computed by dividing the price of the guideline company's stock as of the valuation date by some relevant economic variable such as revenues; earnings before interest, taxes, depreciation, and amortization (EBITDA); or earnings after tax. As an example, a commonly referred to value measure is a company's "PE ratio", which represents the company's market price per share divided by its most recent earnings per share. If a guideline company's PE ratio is 10 and the subject company's earnings per share is $5, then the subject company's per share price may be computed, in concept, as $5 x 10 = $50 per share. Several challenges are encountered when attempting to identify guideline companies to compare to the PACE Program, including the following:

- Identifying other healthcare companies that focus on providing the same services as those of the PACE Program.
- Identifying similar guideline companies of a comparable size. A company's size may give it a competitive advantage (or conversely, limit its ability to compete) in several key areas, such as its access to the capital markets, its ability to create economies of scale and purchasing power, and its diversification in geographic markets and in its product line offerings.

Although the concept of using publicly traded guideline companies as surrogates is intended to be based on comparability, rarely are two companies so similar as to make perfect comparables. However in the radiation therapy sub-industry of healthcare, there are no public company comparables. As a result, we have not relied upon the pricing multiples and subsequent value indications generated by the guideline company method to establish the value of the PACE Program.

Guideline Company Method – PACE Program

The table below summarizes the key valuation multiples for the identified publicly traded managed healthcare companies. Trailing twelve month EBITDA mean and median multiples (less minority interest) are (12.0x) and 12.1x, respectively. The trailing twelve month total revenue mean and median multiples are 0.6x and 0.5x, respectively. This data was sourced on August 28, 2015, and the trailing twelve months is as of the company's last reported quarter.

		TIC / Revenue		*TIC / EBITDA*		*TIC/Member*	*Revenue/Member*
Company Name	Ticker	TTM Revenue	FY + 1 Revenue	TTM EBITDA	FY + 1 EBITDA	June 2015 Members	June 2015 Members
UnitedHealth Group Incorporated	UNH	0.9x	0.8x	10.6x	10.0x	n/a	n/a
Aetna Inc.	AET	0.8x	0.8x	9.4x	9.2x	$505	$2,523
Humana Inc.	HUM	0.6x	0.6x	12.1x	11.1x	$677	$3,674
Cigna Corp.	CI	1.1x	1.1x	10.7x	10.2x	$1,003	$2,481
Health Net, Inc.	HNT	0.4x	0.3x	15.0x	9.9x	$1,862	$4,513
WellCare Health Plans, Inc.	WCG	0.4x	0.4x	12.6x	9.1x	$602	$4,951
Centene Corp.	CNC	0.5x	0.4x	12.3x	11.2x	$1,235	$4,032
Molina Healthcare, Inc.	MOH	0.4x	0.4x	12.3x	9.8x	$1,651	$3,417
Universal American Corp	UAM	0.3x	0.4x	(203.1x)	21.0x	$1,103	$18,423
	Mean:	0.6 x	0.6 x	-12.0 x	11.3 x	$1,080	$5,502
	Median:	0.5 x	0.4 x	12.1 x	10.0 x	$1,053	$3,853

Source: Capital IQ as of 08/28/15
Total Invested Capital ("TIC") is defined as Market Value of Equity plus Interest-bearing Debt less Cash & Equivalents

Although the concept of using publicly traded guideline companies as surrogates is intended to be based on comparability, rarely are two companies so similar as to make perfect comparables. There are also many key differences between small to mid-size privately held companies and publicly traded companies such as size, depth of management, capital structure, access to capital, product diversification, geographic diversification, and risk. In addition, external microeconomic and macroeconomic events cause fluctuations in the price of public stock prices that can distort multiples.

With consideration to the previously mentioned disadvantages of the guideline company method, we believe that all of the key differences identified above are applicable to the subject PACE Program when compared to the identified public guideline companies. Furthermore, the indentified managed care companies derive little, if any, of their revenue from PACE Programs. Therefore, it is our opinion that the public guideline companies do not reflect comparable market multiples for the PACE Program. We **have not relied** upon the pricing multiples and subsequent value indications generated by the guideline company method to establish the value of the PACE Program.

Merger & Acquisition Method

Another market approach method is the merger and acquisition method (the M&A method). The M&A method involves the observation of other recent transactions involving the sale of entire companies or operating units of companies. The general notion of M&A analysis is consistent with the guideline company method in that an analysis is made of the prices of transactions in relationship to some fundamental financial variable that affects the value. This relationship is referred to as the "acquisition multiple" or the "deal multiple". These multiples may be stated as price to revenues, price to EBITDA, or some other relevant relationship. Challenges in using this approach include the following:

- Data involving merger and acquisition activity is usually very general and broad and often times important elements of the transaction are omitted, including what exact assets are being acquired (example tangible vs. intangible), what liabilities are being assumed, and what relevant agreements may be tied to the transaction, such as non-compete agreements with the sellers, management services agreements with third parties, or employment agreements of key employees.

- The prices involved in M&A transactions are generally at an "investment value" level, specific to the particular buyer of the entity, as opposed to a "FMV" level, which considers a price to the non-specific "hypothetical willing buyer". Consequently, converting an investment value to FMV by identifying the investment or synergistic premium included in the transaction may be highly speculative and controversial.

- The transaction price may involve the purchasing company's stock or some other non-cash consideration. If the "FMV" standard of value is being applied to the subject company, then a cash or cash-equivalent value is required (in other words, the FMV definition assumes that a buyer is exchanging cash or cash-equivalent consideration for the subject business). Therefore, appropriate adjustments may need to be made to transaction prices due to the nature of the consideration being exchanged.

Please see the following page for a summary of identified transactions that we have considered in the merger & acquisition method.

Merger & Acquisition Method – PACE Program

The merger and acquisition method applies transaction data in a manner similar to that in the guideline public company method. Instead of selecting individual guideline companies actual transactions involving companies similar to the subject company are used to determine the pricing multiples. Although the data has challenges, we have extensively researched the *Irving Levin Associates' Database* in our attempt to obtain transaction multiples for managed care organizations. Our search returned 7 transactions with known enterprise value to revenue multiples, 7 transactions with known enterprise value to EBITDA multiples, and 4 transactions with known enterprise value to members. Based on this data, the enterprise value to revenue multiples ranged from a low of 0.4x to a high of 5.8x, with a median multiple of 0.6x and a mean multiple of 1.4x. The enterprise value to EBITDA multiples ranged from a low of 6.2x to a high of 18.3x, with a median multiple of 7.7x and a mean multiple of 10.4x. The enterprise value to member multiples ranged from a low of 1,121 to a high of 8,466, with a median multiple of 2,139 and a mean multiple of 3,466.

Status	Close Date	Target	Acquirer	Price ($mm)	Implied EV ($mm)	Revenue ($mm)	EBITDA ($mm)	Members	TEV/Revenue	TEV/EBITDA	TEV/Member
Closed	12/24/2012	AMERIGROUP Corporation	WellPoint Inc.	5,103.61	4,479.28	7,465.47	285.30	2,737,000	0.6 x	15.7 x	1,637
Closed	5/7/2013	Coventry Health Care Inc.	Aetna Inc.	7,311.45	5,795.48	14,488.70	919.92	5,172,000	0.4 x	6.3 x	1,121
Closed	12/21/2012	Metropolitan Health Networks, Inc.	Humana Inc.	795.58	740.78	740.78	96.21	87,500	1.0 x	7.7 x	8,466
Closed	8/31/2012	Great American Supplemental Benefits Group	Cigna Corp.	305.00	305.00	338.89	n/a	n/a	0.9 x	n/a	n/a
Closed	1/31/2012	HealthSpring Inc.	Cigna Corp.	4,195.69	3,140.39	5,233.98	506.51	1,188,839	0.6 x	6.2 x	2,642
Closed	3/2/2012	APS Healthcare, Inc.	Universal American Corp.	280.50	280.50	n/a	n/a	n/a	n/a	n/a	n/a
Closed	5/1/2012	Health Plus	Amerigroup, Inc.	85.00	85.00	n/a	n/a	n/a	n/a	n/a	n/a
Closed	11/30/2011	FirstAssist Insurance Services	CIGNA Corp.	71.00	71.00	n/a	5.82	n/a	n/a	12.2 x	n/a
Closed	12/1/2011	AmeriHealth Mercy Family of Cos.	Independence Blue Cross	170.00	340.00	n/a	n/a	n/a	n/a	n/a	n/a
Closed	6/28/2011	Prodigy Health Group	Aetna, Inc.	600.00	600.00	n/a	n/a	n/a	n/a	n/a	n/a
Closed	8/31/2010	Vanbreda International, NV	CIGNA Corp	412.00	412.00	70.90	22.50	n/a	5.8 x	18.3 x	n/a
Closed	11/30/2010	Bravo Health, Inc	HealthSpring, Inc	545.00	545.00	1,362.50	81.34	n/a	0.4 x	6.7 x	n/a
Closed	9/1/2010	Abri Health Plan	Molina Healthcare, Inc	16.00	16.00	n/a	n/a	n/a	n/a	n/a	n/a
Closed	8/26/2010	Multiplan, Inc	BC Partners; Silver Lake	3,100.00	3,100.00	n/a	n/a	n/a	n/a	n/a	n/a
								Mean:	1.4 x	10.4 x	3,466
								Median:	0.6 x	7.7 x	2,139

Source: Capital IQ, VMG Research

Due to the general lack of information regarding the specific terms related to the transactions (specific assets / liabilities contributed, standard of value used, components of consideration paid, etc.) and on the acquired entities, we **have not relied** upon the valuation indications derived from the merger & acquisition method.

MARKET APPROACH

Individual Transaction Method – PACE Program

In addition to consideration of the guideline company and merger and acquisition methods to value the business under the Market Approach, another generally accepted valuation method is the individual transaction method or the "rules of thumb" method. VMG has been involved in over 100 medical group, IPA, and group plan valuations since 1995. Over that time, we have developed an acute understanding of transaction pricing in the marketplace through direct involvement in transactions and also through various transaction sources.

Based upon our experience in the managed care marketplace, it is our opinion that qualified buyers typically pay a total invested capital to EBITDA multiple of approximately 6.0x to 8.0x for a control interest in a managed care provider. The range of the control interest total invested capital to revenue multiples based on our marketplace knowledge are typically between 0.5x and 0.7x. As would be expected, these multiples would vary according to the specific facts and circumstances surrounding the transaction.

Multiple	Range of Multiple Selections			NBY	Value Indication		
	Low		High		Low		High
TIC/Revenue	0.5x	to	0.7x	$196,281,468	$98,140,734	to	$137,397,028
TIC/EBITDA	6.0x	to	8.0x	$20,337,328	$122,023,966	to	$162,698,622
				Average (TIC/EBITDA) & (TIC/Revenue	$130,070,000		

Multiple	Range of Multiple Selections			Year 1	Value Indication		
	Low		High		Low		High
TIC/Revenue	0.5x	to	0.7x	$218,147,180	$109,073,590	to	$152,703,026
TIC/EBITDA	6.0x	to	8.0x	$24,046,333	$144,277,996	to	$192,370,661
				Average (TIC/EBITDA) & (TIC/Revenue	$149,610,000		
				50/50 Weighted Average of NBY/Year 1	$139,840,000		

As illustrated in the chart, we applied typical control interest multiples to the PACE Program's normalized and Year 1 revenue and EBITDA. Using a blend of the normalized and Year 1 value indications, these multiples imply a total invested capital value for the PACE Program of approximately **$139.8 million.** Although we considered the individual transaction method as a reasonableness check, we **have not relied** upon the value generated under the individual transaction approach to help in determining the control value indication of the PACE Program.

FINAL REPORT

Total Community Options, Inc. d/b/a InnovAge

Valuation Reconciliation & Summary

VMG HEALTH
WE VALUE HEALTHCARE

Valuation Summary

Fair Market Value Summary	Rounded ($)
Fair Market Value of the PACE Programs, Total Invested Capital Level	**$131,050,000**
Fair Market Value of Solutions, Total Invested Capital Level	**$16,040,000**
Fair Market Value of Homecare, Total Invested Capital Level	**$670,000**
Fair Market Value of Real Estate, Total Invested Capital Level	**$56,550,000**
Fair Market Value of InnovAge, Total Invested Capital Level	**$204,310,000**
Plus: Working Capital Surplus	**47,260,000**
Fair Market Value of InnovAge, Total Invested Capital Level, Plus Working Capital Surplus	**251,570,000**
Less: Interest-Bearing Debt Outstanding as of June 30, 2015	**(910,000)**
Fair Market Value of InnovAge, Enterprise Equity Level, Plus Working Capital Surplus	**250,660,000**
Less: Bond Defeasance per InnovAge Management Indications	**(37,190,000)**
Fair Market Value of InnovAge, Enterprise Equity Level, Plus Working Capital Surplus less Bond Defeasance	**213,470,000**

Enterprise TIC Level Plus Working Capital Surplus Range (+/- 5.0%) (Rounded):		
Low	Mid	High
$239,000,000	**$251,570,000**	**$264,100,000**

Enterprise Equity Level, Excluding Working Capital Surplus and Bond Defeasance (+/- 5.0%) (Rounded):		
Low	Mid	High
$202,800,000	**$213,470,000**	**$224,100,000**

Based on and subject to the facts, limiting conditions, and assumptions presented in this report and attached exhibits, as of the report date, the FMV of the total invested capital ("TIC") of InnovAge is reasonably represented as **$204.3 million**. As of the June 30, 2015 balance sheet, the PACE Program had a considerable amount of working capital surplus. The value of this working capital surplus is estimated to equal approximately $47.3 million and is included in our conclusion of the FMV. Equity is defined as TIC less interest-bearing debt. Homecare had approximately $910,000 of interest-bearing debt as of the June 30, 2015 balance sheet. Therefore, the FMV of the equity of InnovAge, including the working capital surplus, can be reasonably represented at approximately **$250.7 million**. In addition, we understand that management will pursue bond defeasance in the amount of $37.2 million. After netting this from the valuation, total value equals **$213.5 million**. We have then applied a +/- 5.0% value range arrive at an equity value range of approximately **$202.8 million to $224.1 million.**