The
Bear Facts

Report Date:
March 29, 2016

Badger Consultants, LLC
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Envision Healthcare Holdings, Inc.
EVHC - $20.31 – NYSE

Recommendation: Sell Short

Reasons For Short Sale Recommendation

- **Business model not understood by Wall Street.**
- **Business model about to fall apart.**
- **New State AND Federal regulations a threat to over 50% of Revenue.**
- **50% downside potential in stock price.**
- **Possible equity wipeout, $3.7 billion market cap.**
- **Expensive stock: 4.8 x net debt to “adjusted EBITDA”.**
- **$2.2 billion net debt vs tangible book value of NEGATIVE $2.3 billion.**
- **12 x EV/Ebitda,**
- **GAAP P/E 26, Adjusted P/E 18**
- **Heavy insider sales.**

Financials

52 – Week Low 2-9-20016	$18.31	Book Value/Shr (mrq)	$10.72
52 – Week high 8-4-2015	$45.95	Diluted Earnings/Shr (ttm)	$0.76
52- Week Change	-47.50%	Diluted Earnings/Shr mrq)	$0.22
Daily Volume Avg.	2.9M	Sales/Shr (ttm)	$29.35
Market Capitalization	$3.71B	Cash/Shr (mrq)	**$0.76**
Shares Outstanding	464.38M	Price/Book (mrq)	1.87
Float	187.08M	Price/Earnings (ttm)	26
Profit Margin (ttm)	**2.66%**	Price/Sales (ttm)	0.69
Operating Margin (ttm)	**7.26%**	Revenue (ttm)	$5.45B
Return on Assets (ttm)	4.46%	EBITDA (ttm)	$578.31M
Return on Equity (ttm)	8.00%	Debt/Equity (mrq)	149.55
Operating Cash Flow (ttm)	$249.11M	**Shares Short 3-15-2016**	**11.02**
Leveraged Free Cash Flow (ttm)	$84.61M	**% of Float Short**	**6.88%**
Total Cash (mrq)	$141.68M	Short Ratio	3.8

(ttm) = Trailing 12 months, (mrq) = Most recent quarter, M = Millions, B = Billions, m = Thousands

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Business Model Not Understood by Wall Street

Wall Street views EmCare, the primary subsidiary of Envision Healthcare Holdings (EVHC), as the largest outsourced provider of emergency room doctor staffing and management services in the U.S. **It has been growing by acquisitions and increasing profits by operating efficiency and scale.** The weak second half of 2015 was due to a short term staffing issue and a couple of weak contracts. All is well going forward. EVHC also has AMR, an ambulance services subsidiary.

What EmCare actually does is **take over an in-network hospital Emergency Room that is aligned with most local healthcare insurance plans and staff it with physicians who are Out-Of-Network**. This is a debt funded roll-up. As of December 31, 2015 Goodwill was \$3.2 billion, Intangibles \$1.1 billion, Total debt \$3.0 billion, Shareholders equity \$1.97 billion.

Since EmCare is out-of-network, it refuses to sign in-network agreements with local insurance providers, it 1). **can charge exorbitant out-of-network reimbursement rates from the providers** and 2). since it is out-of-network, it can **"balance bill" its patients for the difference between its prices and the amount the insurer believes is "usual and customary". This is a license to print money!**

Most patients that go to the emergency room at the hospital that is in their insurers network have no idea that the ER doctors are independent contractors not affiliated with the hospital. **EmCare handles all the staffing, management and BILLING.** This allows EmCare to sock ER patients with sky high medical bills that their insurer will only cover some of and then go after the patient for the sometimes considerable difference. Naturally, when patients get the bill they call and complain to the hospital, and oftentimes the hospital itself has no idea what the bill is.

The hospital thought they were going to save a lot of money by getting ER physicians off the payroll and not have the headache of staffing, management and billing. Instead what they get is a **huge balance bill PR problem**. Patients get extremely angry about the deception and take it out on the hospital. The hospital looking to avoid these problems signs high out-of-network reimbursement rates with EmCare.

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Hypothetical ER billing

	In Network	Out-Of-Network
Billed ER Charge	$4,000	$4,000
Contractual Agreement with Insurance	$2,000	$2,400
Insurer payment (80%)	$1,600	$1,920
Patient Co-payment (20%)	$400	$480
ER Co-payment (to Insurer)	$200	$200
Total patient payment	$600	$680
Total additional sales to EmCare from higher Out-Of-Network Reimbursement Rate	$0	$400
Additional sales to EmCare from balance billing The patient the difference between billed charge and Non-contractual payment		$1,600
Total extra sales/profit to EmCare	$0	$2,000

So, if the patient went to a hospital in his insurer carrier's network, he would pay a total of $600. But if he went to a EmCare ER, he would be on the hook for $2,280. EmCare's refusal to sign in-network agreements with hospitals is an injustice to the patient, who in a time of crisis is taken advantage of. Extortion may be too harsh of a word, but **EmCare is very good at extracting the maximum dollars possible from hospitals and patients.**

However, **patients, after contacting the hospital about their outrageous bill, contact their congressman next**. The gravy train is about to end.

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Business Model About to Fall Apart

EmCares business practices, while not known by Wall Street, are well known by the insurance industry, affected patients, and politicians. EmCare is an easy target for Republicans or Democrats wanting to help the "little guy".

The reason Wall Street is not aware how EVHC makes their money is simple, they **DO NOT DISCLOSE IT**. We have read over all their 10Q's and 10K's and they do not disclose their dependency on out-of-network reimbursement rates and there is no mention whatsoever of balance billing. Really? This is THE MATERIAL PART of their profits and there is no mention or discussion of balance billing and out-of-network reimbursement.

EVHC 10K

	Percentage of EmCare cash collections (Net Revenue)		
	Year Ended December 31,		
	2015	2014	2013
Medicare	23.0 %	20.5 %	21.1 %
Medicaid	9.3	8.9	9.2
Commercial insurance/managed care (excluding Medicare and Medicaid managed care)	46.4	52.5	49.2
Self-pay	2.9	2.4	3.0
Fees/other	5.9	1.6	2.4
Subsidies	12.5	14.1	15.1
Total net revenue	100.0 %	100.0 %	100.0 %

Nowhere in the 10K is balance billing disclosed. So where is it? According to EVHC Investor Relations, **balance billing is included in the Commercial insurance/managed care line**. Why is it included there? Balance billing is money collected from patients AFTER their insurance has paid EmCare. But looking at the 10K you would think that balance billing would be in the self-pay line and only 2.9% of EmCare cash collections.
This is what Wall Street believes, they are wrong.
So, out-of-network reimbursements AND balance billing account for 46.4% of cash collections by EmCare. This dollar amount is going to shrink drastically.

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What happens if the hospital, after getting complaints from patients, asks EmCare to contract in-network with more local insurance companies? EmCare says they would be happy to, but first the hospital must pay them $200,000 per year to make up the difference in profits that EmCare would lose by billing in-network instead of out-of-network.

The Glen Rose Medical Center, in Glen Rose, Texas found out about this the hard way. After getting complaints from patients, Glen Rose asked EmCare to contract wth more local in-network insurance companies. EmCare demanded $200,000 per year. Glen Rose Medical center held a meeting on April 28, 2015 to discus what to do. The meeting is available on Youtube: https://www.youtube.com/watch?v=6kvM5fKPqCE

The biggest threat to EVHC is 1). **legislation that outlaws balance billing** and 2). **Insurance companies refusing to pay out-of-network reimbursement rates to EmCare. BOTH OF THOSE THINGS ARE HAPPENING NOW!**

Medicare and medicaid are already exempt from balance billing. States are now passing laws outlawing balance billing. **Florida just passed on March 11, 2016 HB 221 last-minute passage of what one group calls a national model for protection against surprise medical charges.**

Surprise medical bills: Fla. seen as U.S. model as consumers speak out

“A fundamental question kept emerging: Is it fair for consumers who are trying to play by the rules — who have insurance and try to choose facilities in their health plan’s network — to be blindsided by charges from providers they may not know are out of network?”

Florida lawmakers listened this year after similar efforts stalled a year ago. It came down to almost the final minute, but HB 221 passed on the session’s last day, March 11, 2016.

“A handful of other states have comprehensive provisions designed to guard against what is sometimes called **“balance billing,” but Florida’s may be the most direct and clear in many respects**, said Bell of Consumers Union.”

But health plans contended the bill was critically needed because some medical providers had incentives to stay out of networks as a “business model.” That meant

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they could not only accept what the insurer paid, **but also bill consumers for whatever balance they saw fit.**
That puts the burden on consumers, who typically have little leverage to fight back. In the worst cases, big surprise bills can wipe out savings, increase the risk of bankruptcy, or damage credit records.

"**The final legislation is designed to hold consumers harmless in billing fights, charging them no more than the equivalent of in-network costs**. **The bills blocks balance billing when "the insured does not have the ability and opportunity to choose a participating provider at the facility who is available to treat the insured."**

Why is Florida important? Because, 1). It could set a national standard for other states to follow and 2) **Florida and Texas are, according to EVHC, 50% of their business!**

"**I believe Florida is now at the forefront of ending the practice of balance billing and could be a model for this kind of legislation going forward**," said Audrey Brown, president of the Florida Association of Health Plans. "It has an immediate impact on consumer wallets."

Florida is not alone in banning balance billing. **13 states now ban balance billing**, **half the states in the country are introducing legislation to ban balance billing**, and congress in November 2015 introduced the "End Surprise Billing Act" to severely cut back balance billing. End Surprise Billing Act

New Federal Regulations

The only thing that would be worse for EVHC than balance billing being outlawed would be new federal regulations that drastically lower payments for out-of-network emergency services. Oops, that just occurred. A new federal regulation takes effect in January 2017 (9 months from now) that does just that.

The rule establishes a "Greatest of Three" test that effectively **allows INSURERS to calculate reimbursement rates for out-of-network emergency services.** Can INSURERS basically pay anything they want? Yep!

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On December 1, 2015 the American College of Emergency Physicians put out a press release against this new rule. Health plans NOT required to pay fairly for emergency care
"The federal government last week issued a new regulation that allows health insurance companies to pay doctors in emergency departments essentially whatever they like, opening the door to the possibility of reimbursements that do not even cover the costs of care.
According to the ruling, even the minimum standards of payment are "not necessary" in states that have banned balance billing.

EVHC's competitor Team Health is clearly worried about this rule, from their 10K:

Out-of-Network Emergency Care: "Greatest of Three"

In June 2010, CMS in concert with the Department of Labor (DoL) and Internal Revenue Service (IRS) published an **interim rule (IFR)** outlining patient protections under the PPACA, including a mechanism for the reimbursement of out-of-network emergency care, **commonly referred to as the "Greatest of Three" rule**.

In November 2015, CMS, DoL and IRS published a **Final Rule (FR)** establishing a three prong "test" as the basis for determining fair payment to providers for the reimbursement of out-of-network emergency services. Under the FR, this test is satisfied if the health insurance benefit plan reimburses the provider an amount equal to not less than the greater of: (1) the median amount negotiated with in-network providers for the emergency services; (2) the amount for the emergency services calculated using the same method the plan generally uses to determine payments for out-of-network services (such as the usual, customary, and reasonable amount); or (3) the amount that would have been paid under Medicare for the emergency services.

A material change from the IFR to the FR was the reference to "usual, customary, and reasonable amounts" in the FR, as opposed to "usual, customary, and reasonable charges" in the IFR. **This is material because health benefit plans can satisfy the Greatest of Three test without regard to a providers submitted billed charges.** Additionally, the FR does not prohibit providers from balance billing patients for out-

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of-network emergency services, but the "Greatest of Three" rule does not apply in states that ban balance billing.

This change is so drastic that the ACEP, an ER trade group sent a letter on December 9, 2015 to CMC, the DoL, the IRS, The American College of Emergency Physicians and the Emergency Department Practice Management Association calling the new final rule **"The greatest threat to the financial viability of the emergency care safety net, and patient access to qualified emergency physicians and emergency department on-call specialists, that has EVER been proposed** by federal regulators...
These Final Regulations could not have been more favorable to health plans if they were written by the plans themselves."

Despite this, EVHC has chosen not to disclose this rule change to investors in any financial documents.

So, now the shoe is on the other foot. **Instead of EmCare demanding outrageous out-of-network prices to the insurance companies, the insurance companies will now tell EmCare what they are going to pay and EmCare will not be able to go after the patient for the difference. This completely destroys their business model!**

We sure hope that EmCare hasn't pissed off a lot of hospitals and insurance companies over the past several years! Oops, too late, they already have.

Several major insurers — including **United, Cigna, Humana and Aetna** — don't include EmCare affiliates in their networks in Florida, saying it demands rates that are too high.

United spokeswoman Elizabeth Calzadilla-Fiallo said **EmCare has requested that United pay 600 percent of the Medicare rate**. "We cannot contract at rates that are utterly unsustainable and drive up costs while unfairly burdening local businesses and consumers," she said.

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Some hospitals have also dropped EmCare after getting flooded with complaints from patients. Remember Wall Streets excuse for a weak second half of 2015? A short term staffing issue and a few weak contracts!

According to a former Regional Operations Director at EmCare: "They have an annual churn of lost contracts, but they have always managed to outpace it with new business. They have a good salesforce, several of these guys make a million plus a year. They will promise anything. Later on, the hospitals are unhappy with what was sold to them."

Demanding that hospitals pay them $200,000 per year to be in-network may come back to haunt them. We don't believe that hospitals and insurance companies like EmCare very much, and now they get to determine what to pay EmCare. Karma's a bitch!

How Much Revenue/Profit is at Risk

Since EVHC does not disclose anything about out-of-network reimbursements and balance billing, figuring out how much of revenue and profits are at risk is not exact. They have 900+ contracts with hospitals, we don't know what percent of those are out-of-network. We assume most are out-of-network.
We know that EmCare is 62% of adjusted EVHC EBITDA. **We estimate that out-of-network reimbursement and balance billing is at least 30% of EVHC's adjusted EBITDA and possibly close to 70% on the high side.**

If we go back to the Glen Rose Medical Center, EmCare demanded $200,000 to make up for lost profits if it became in-network instead of out-of network. Glen Rose is a small 15 bed medical center. If we assume that EmCare makes the same $200,000 profit at all 900+ hospital contracts it currently has, it would equal $180 million. Now, many of the hospitals are much bigger and EmCare would probably make more. In 2015 EmCare had adjusted EBITDA of $377.7 million and AMR had adjusted EBITDA of $226.7 million for a total to EVHC of $604.3 million. So, **$180 million would be 47.7% of adjusted EBITDA for EmCare and 29.8% of EVHC adjusted EBITDA.**

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Another way to estimate Revenue and EBITDA at risk is to look at how many insured patients EmCare has. In 2015 EmCare had 5.3 million commercial insured patients.

EmCare had $1.692 billion in total commercial revenue, divided by 5.3 million patients equals $319 per patient. Industry average revenue per commercial insurer patient is $240. Competitor Team Health's revenue per consumer insurance patient is $249. So EmCare gets about $79 more per patient than the industry average. Considering that most patients are out-of-network, this actually seems low.

$79 in additional revenue per patient with commercial insurance times 5.3 million patients equals $418.7 million in additional revenues. $418.7 million of additional revenue is 22% of EmCare revenue and 8% of EVHC's total revenue.

That is revenue, what about EBITDA? The industry average for hospitals is about a 40% margin on commercially insured patients. Most emergency rooms lose money on Medicare, Medicaid and self-pay patients. Commercially insured patients are the only profitable segment.

A 40% margin on $418.7 million of additional revenue equals $167.5 million in adjusted EBITDA at risk. $167.5 million is **44% of EmCare EBITDA and 28% of EVHC total EBITDA.**

In 2015 EVHC had $414 million in operating profit. If EmCare's margins are higher than the industry average of 40%, a lot or even **two thirds of their operating profit could disappear.** It is reasonable to assume that EmCare's margin is far higher than the industry average of 40% because the industry average includes a lot of in-network hospitals, while most of EmCare's are out-of-network.

If EmCare has a 60% margin, that would equal $251.2 million or **66% of EmCare EBITDA and 42% of EVHC total EBITDA.**

How is this not at least a risk factor in EVHC's 10Q or 10K? Nope, not a word.

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Insider Selling

Perhaps EVHC does not think that these new state AND federal regulations are worth noting or worrying about. But someone seems worried. That person would be CEO William Sanger. Mr Sanger has sold 2.286 million shares since 2014 for $74.4 million.
Total insider sales by all insiders has been 1.469 million shares in the past six months. There have been zero insider purchases.

Sales by CEO William Sanger

Date	Shares	Stock	Transaction
14-Sep-15	22,458	EVHC	Option Exercise at $3.69 per share. (Cost of $82,870)
14-Sep-15	22,458	EVHC	Automatic Sale at $41.69 per share. (Proceeds of $936,274)
11-Sep-15	152,542	EVHC	Option Exercise at $3.69 per share. (Cost of $562,879)
11-Sep-15	152,542	EVHC	Automatic Sale at $40.97 per share. (Proceeds of $6,249,645)
12-Aug-15	38,100	EVHC	Option Exercise at $3.69 per share. (Cost of $140,589)
12-Aug-15	38,100	EVHC	Automatic Sale at $43.64 per share. (Proceeds of $1,662,684)
11-Aug-15	136,900	EVHC	Option Exercise at $3.69 per share. (Cost of $505,161)
11-Aug-15	136,900	EVHC	Automatic Sale at $43.84 per share. (Proceeds of $6,001,696)
16-Apr-15	418,500	EVHC	Automatic Sale at $40 per share. (Proceeds of $16,740,000)
16-Apr-15	418,500	EVHC	Option Exercise at $6.06 per share. (Cost of $2,536,110)
25-Feb-15	146,682	EVHC	Automatic Sale at $37.50 per share. (Proceeds of $5,500,575)
25-Feb-15	146,682	EVHC	Option Exercise at $3.19 per share. (Cost of $467,915)
23-Feb-15	7,100	EVHC	Option Exercise at $3.19 per share. (Cost of $22,649)

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23-Feb-15	7,100	EVHC	Automatic Sale at $37.54 per share. (Proceeds of $266,534)
9-Jan-15	8,989	EVHC	Automatic Sale at $37.50 per share. (Proceeds of $337,087)
9-Jan-15	8,989	EVHC	Option Exercise at $3.19 per share. (Cost of $28,674)
8-Jan-15	185,979	EVHC	Automatic Sale at $37.52 per share. (Proceeds of $6,977,932)
8-Jan-15	185,979	EVHC	Option Exercise at $3.19 per share. (Cost of $593,273)
29-Sep-14	200,000	EVHC	Sale at $34.97 per share. (Proceeds of $6,994,000)
29-Sep-14	200,000	EVHC	Option Exercise at $3.69 per share. (Cost of $738,000)
16-Jul-14	543,900	EVHC	Sale at $32.90 per share. (Proceeds of $17,894,310)
16-Jul-14	543,900	EVHC	Option Exercise at $0.72 per share. (Cost of $391,608)

Other recent insider sales

Date	Insider	Shares	Type	Transaction	Value*
Mar 20, 2016	WILSON CRAIG A.Officer	109	Direct	Disposition (Non Open Market) at $21.39 per share.	2,331
Mar 20, 2016	PACKARD DIGHTONOfficer	85	Direct	Disposition (Non Open Market) at $21.39 per share.	1,818
Mar 15, 2016	MURPHY STEVEN GOfficer	12,021	Direct	Option Exercise at $3.69 per share.	44,357
Mar 15, 2016	MURPHY STEVEN GOfficer	17,021	Direct	Sale at $20.45 per share.	348,079
Jan 15, 2016	WILLIAMS RONALD ADirector	130,782	Direct	Option Exercise at $3.69 per share.	482,585
Dec 31, 2015	WILLIAMS RONALD ADirector	1,010	Direct	Acquisition (Non Open Market)	N/A
Dec 31, 2015	SHELTON JAMES DDirector	592	Direct	Acquisition (Non Open Market)	N/A
Dec 31, 2015	SCHNALL RICHARD JDirector	866	Direct	Acquisition (Non Open Market)	N/A
Nov 24, 2015	WILSON CRAIG A.Officer	7,500	Direct	Option Exercise at $0 per share.	N/A
Oct 28, 2015	WILLIAMS RONALD ADirector	392,346	Direct	Option Exercise at $3.69 per share.	1,447,756
Oct 28, 2015	WILLIAMS RONALD	392,346	Direct	Option Exercise at $3.69 per share.	1,447,756

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	ADirector				
Oct 5, 2015	RIGGS LEONARD M JRDirector	4,000	Indirect	Automatic Sale at $36.24 per share.	144,960
Sep 30, 2015	SHELTON JAMES DDirector	417	Direct	Acquisition (Non Open Market)	N/A
Sep 30, 2015	WILLIAMS RONALD ADirector	713	Direct	Acquisition (Non Open Market)	N/A
Sep 30, 2015	SCHNALL RICHARD JDirector	611	Direct	Acquisition (Non Open Market)	N/A
Sep 15, 2015	OWEN RANDEL GOfficer	20,000	Direct	Automatic Sale at $42 per share.	840,000

Conclusion

Wall Street does not understand how EVHC makes their profit. They believe EVHC has been aggressively growing by making acquisitions, gaining scale and controlling costs. The weak 2015 second half was a temporary hiccup that was only a staffing issue and the loss of some weak contracts.

What they don't understand is that their business model is about to implode. Aggressively taking over ER's and refusing to sign in-network contracts with the hospitals and **extracting top dollar out-of-network contracts and then going after the patient for the balance is now or very soon over, PERMANATELY.**

Not only can they not go after patients for the balance due but now they have to accept whatever payment the insurance company sees fit to give them. This payment **MIGHT NOT EVEN COVER THEIR COSTS!** This is a complete 180 from being in the drivers seat and demanding sky high payments from insurers and patients, **to getting nothing from the patient and far less from the insurer**. Surely this business is worth a lot less going forward. There is a ton of debt. Their assets walk out the door each night. The stock is expensive just on its own at a GAAP P/E of 25.

WE see 50% downside to the stock price in the next 12 months, with an outside chance of a zero if insurers play hardball with EmCare.

Our price target is $10-$12. SELL.

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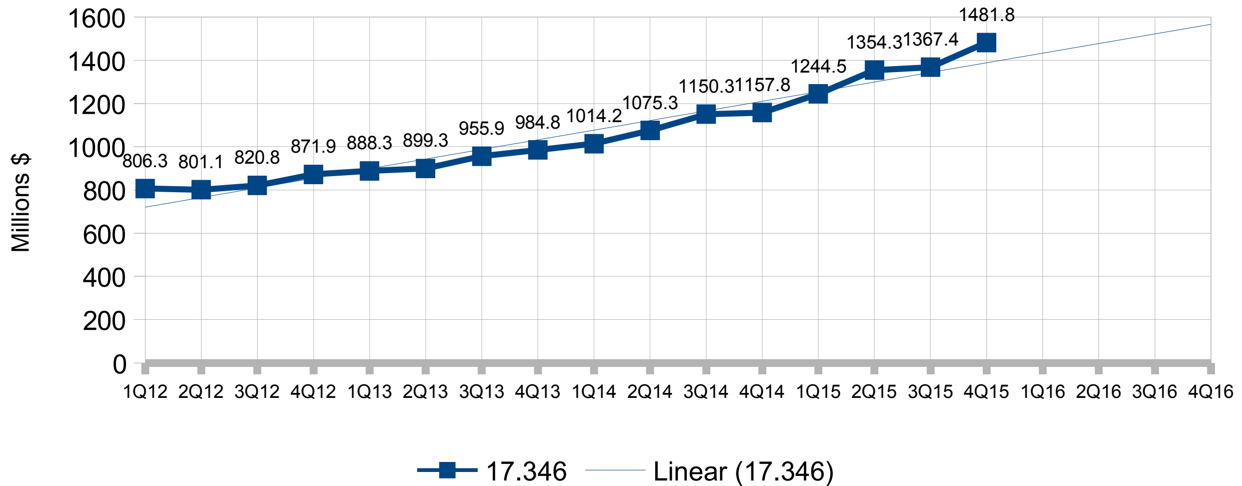

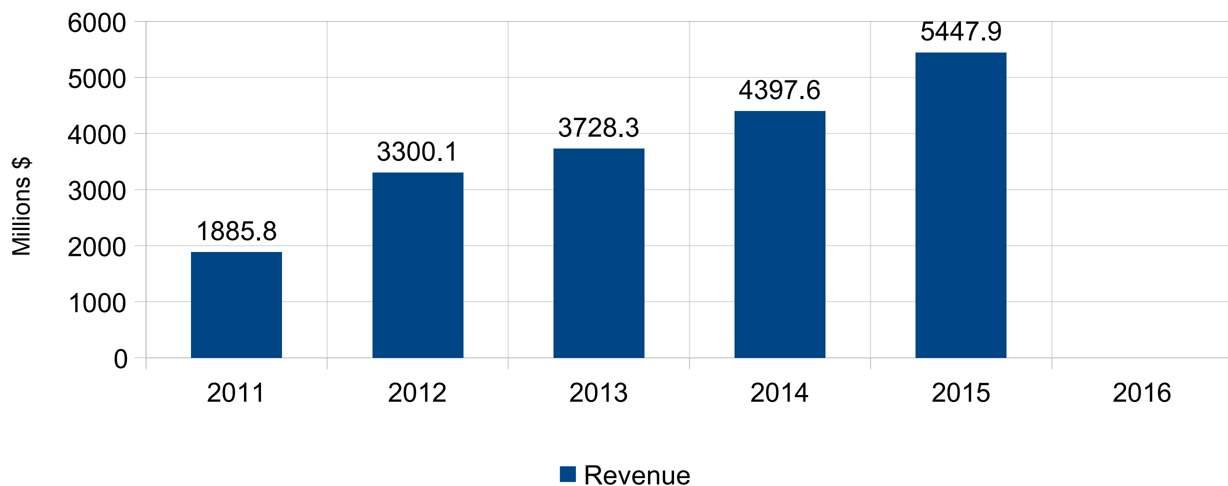

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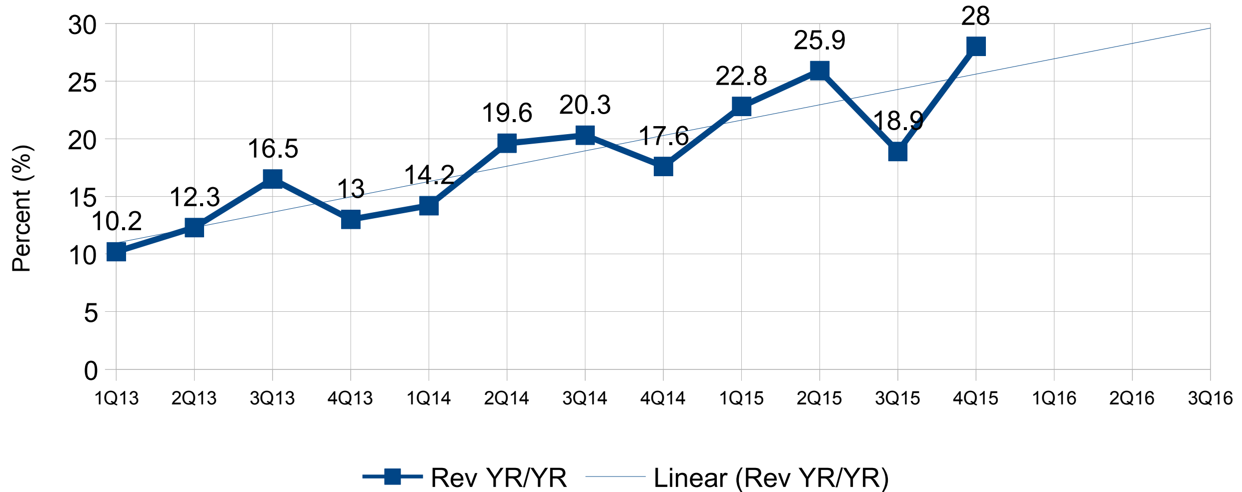

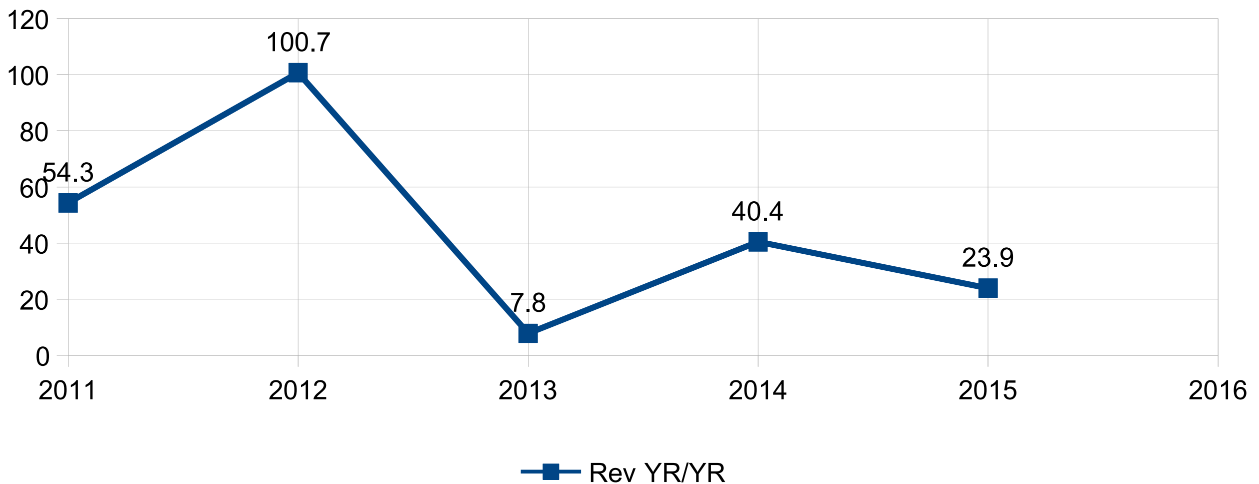

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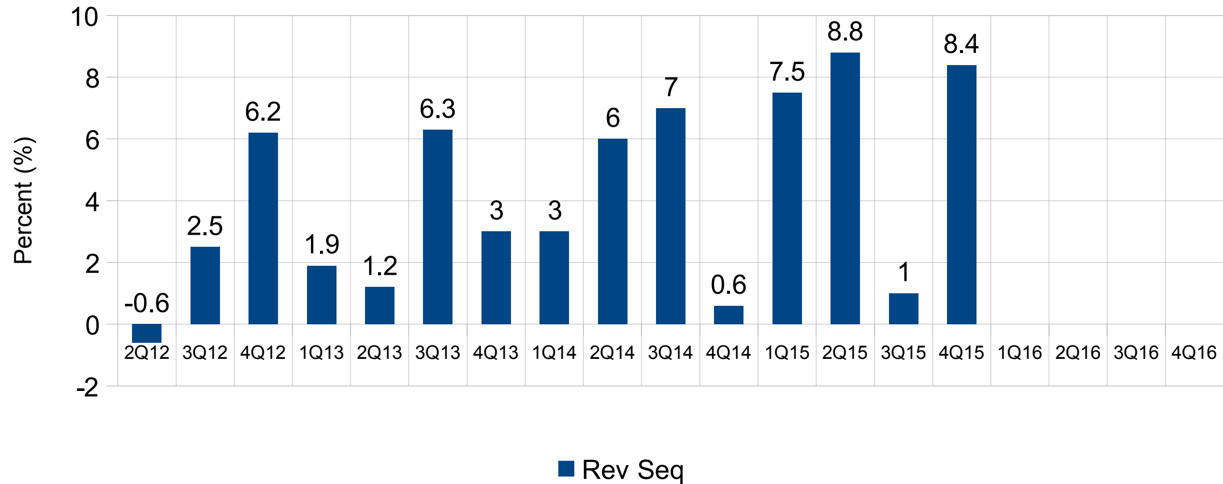

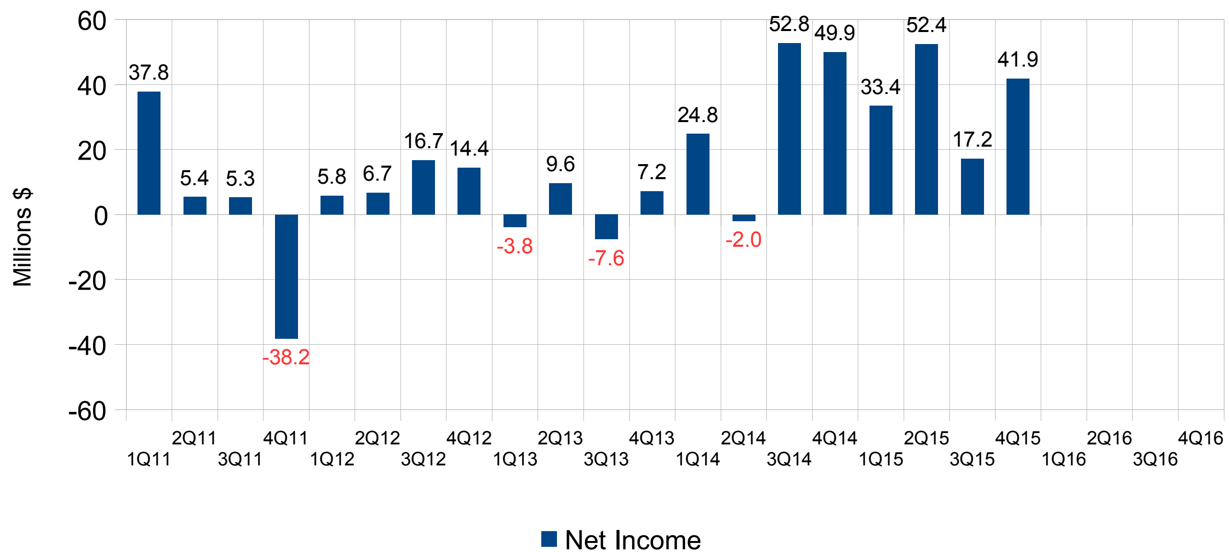

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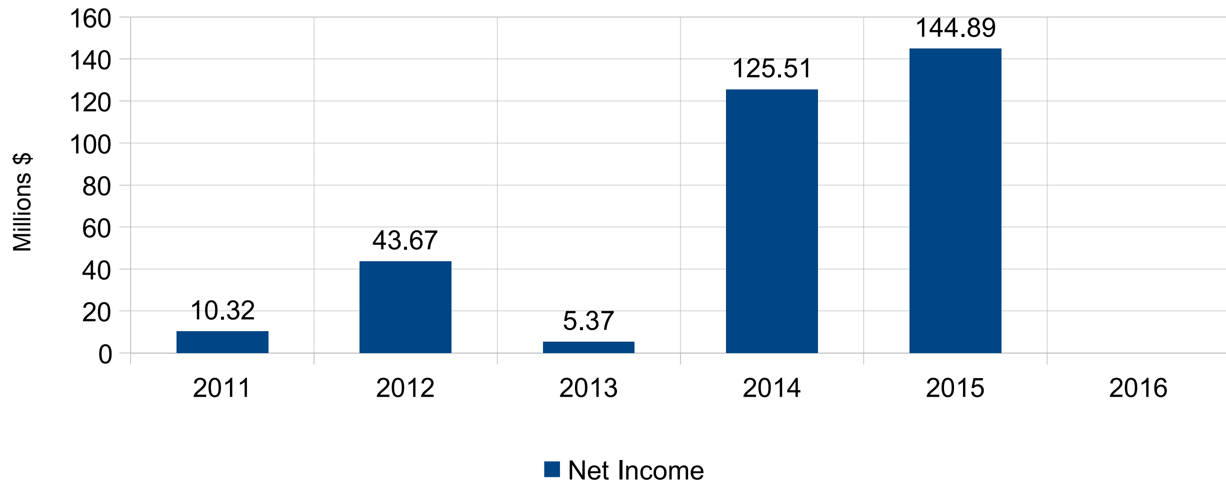
EVHC Net Income

2011 To 2015



EVHC Operating Income

March 2011 To December 2015

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Report Date:
March 29, 2016

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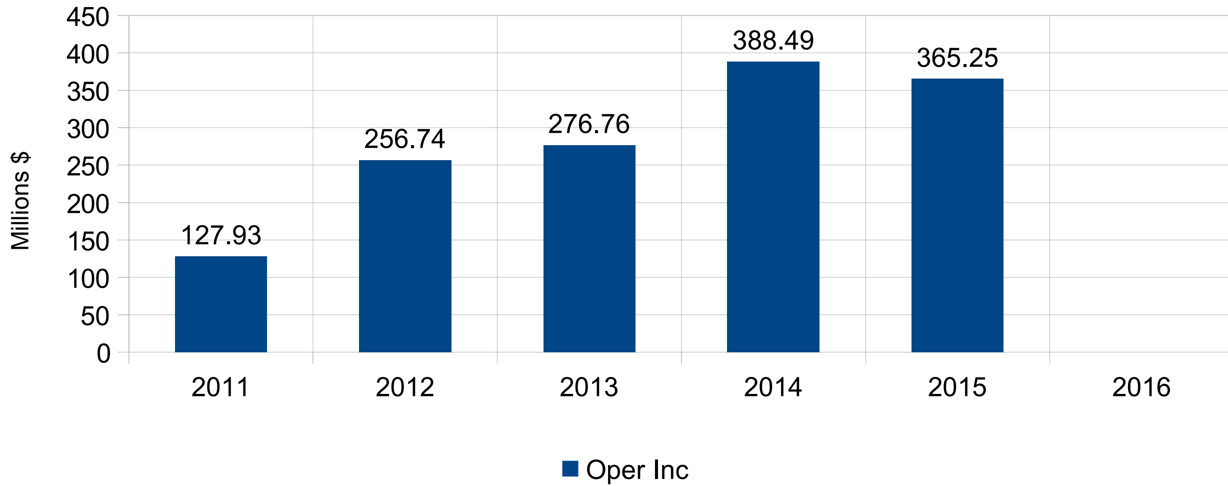

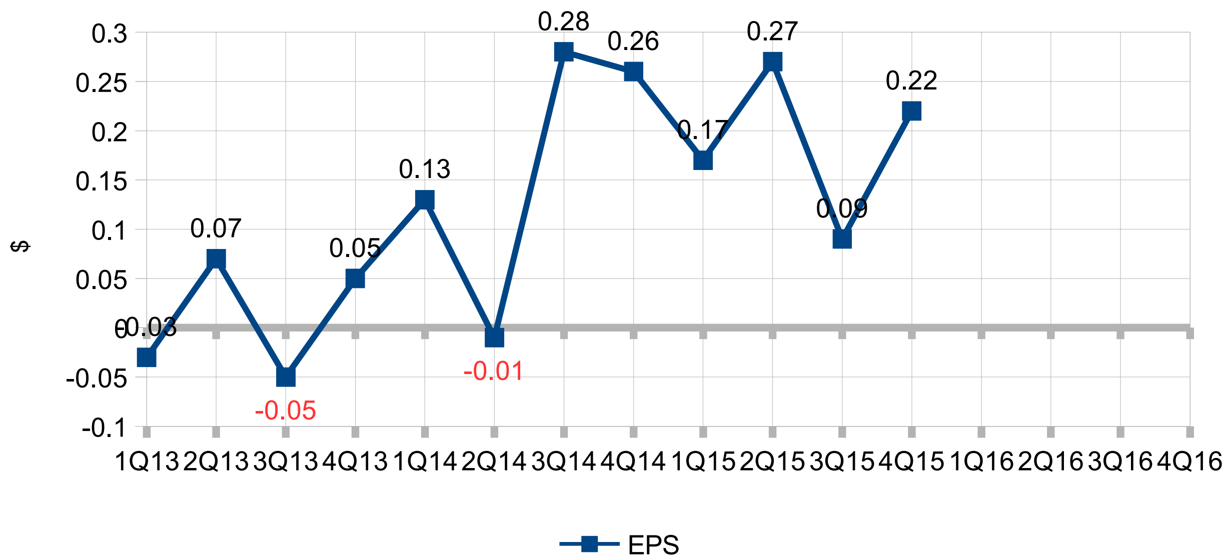

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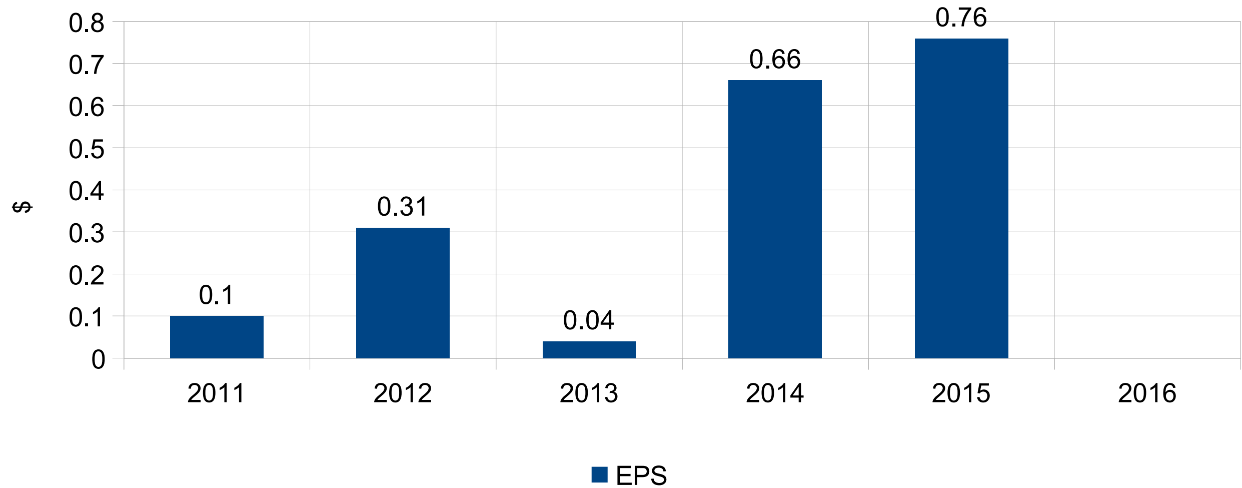

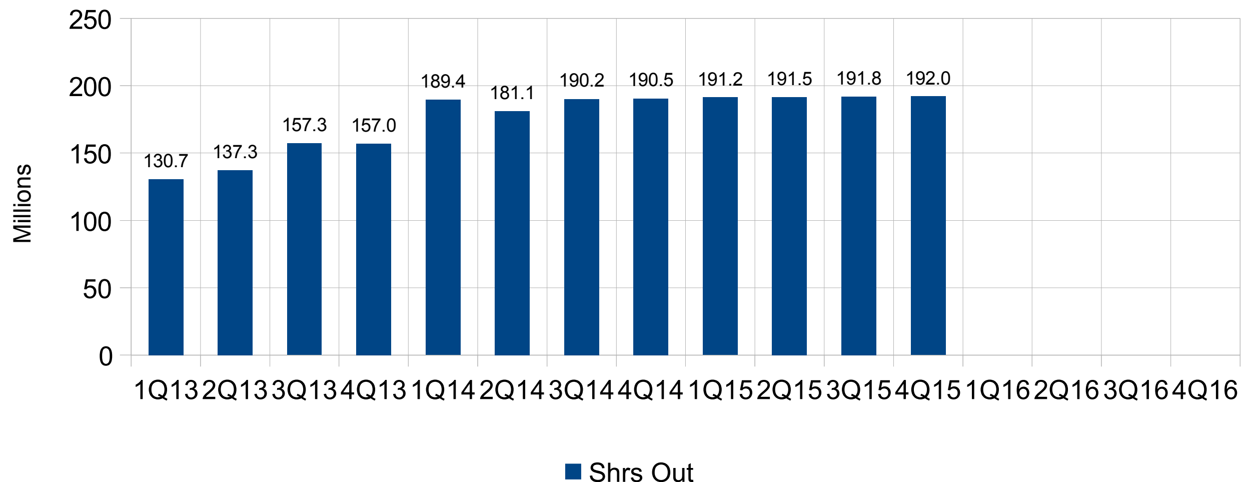

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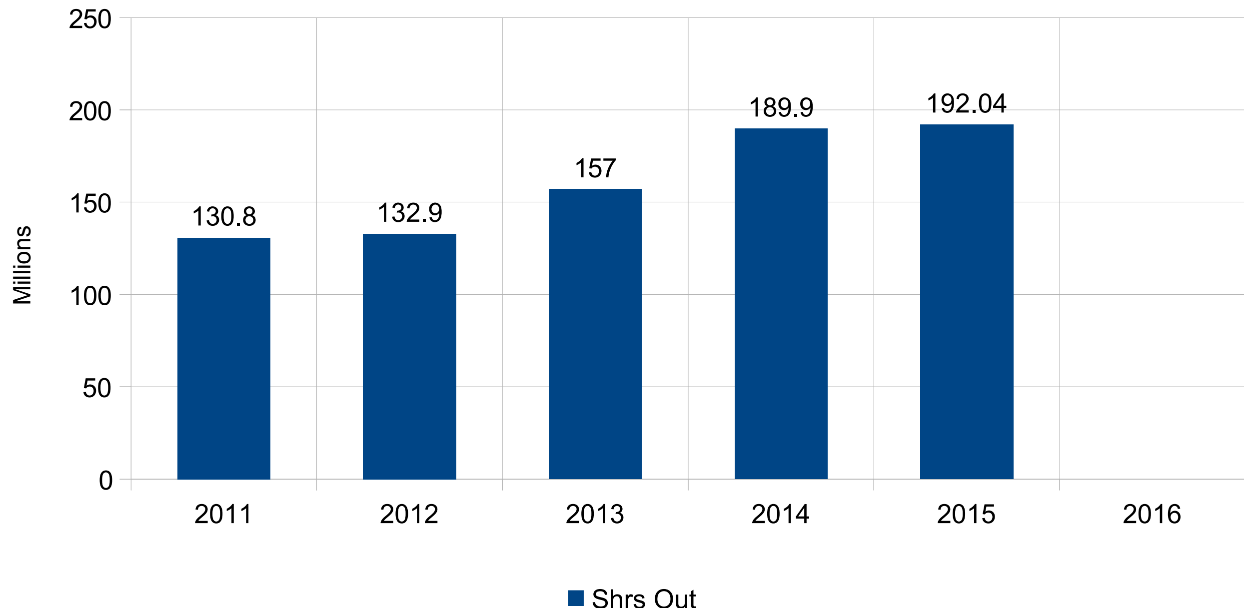

	2010	2011	2012	2013	2014	2015
EmCare Revenue	1,381	1,441	1,385	1,370	1,555	1,800
AMR Revenue	1,478	1,667	1,915	2,359	2,842	3,648
Total Revenue	**2,859**	**3,108**	**3,300**	**3,729**	**4,397**	**5,448**
Compensation	2,021	2,170	2,311	2,667	3,157	3,918
Operating Expense	356	416	421	425	483	662
Insurance Expense	96	101	100	94	113	146
SG&A Expense	68	74	78	86	92	120
EBITDA B4 Minority Interest Expense	318	348	390	457	552	603
Margin	11.1%	11.2%	11.8%	12.2%	12.6%	11.1%
Depreciation & Amortization	65	100	124	141	146	183
Operating Profit	**253**	**248**	**266**	**310**	**400**	**414**
Interest Expense	22	116	170	164	114	117
Other (Gain)/Loss					1	2
Pretax Income	**231**	**132**	**97**	**147**	**285**	**296**
Taxes	89	51	37	57	112	120
Net Income (Ex One Time Items)	**142**	**82**	**60**	**90**	**174**	**176**
Shares Outstanding	138.5	135.2	132.5	155.8	189.9	191.6
EPS (GAAP)	**$1.03**	**$0.60**	**$0.45**	**$0.58**	**$0.91**	**$0.92**
EPS Ex-Adjustmments		**$0.81**	**$0.68**	**$0.84**	**$1.16**	**$1.25**

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