



# Chemed Corporation

## (Ticker: CHE)

Activist Investor: MMI Investments

8 May 2009

### CATALYST SUMMARY

Through a press release issued on March 19, 2009, MMI Investments announced their intention to seek the election of 5 directors to Chemed's 11-person board at the **Annual Meeting Scheduled for May 29, 2009**. If elected, MMI intends to exert their influence in the boardroom to "take strategic action to unlock hidden value in the company's assets" by splitting Chemed into two separate companies. MMI estimates that a tax-free spin-off could potentially yield an increase of approximately 40-75% per share from Chemed's recent closing price.

Since MMI owns less than 4% of Chemed's shares outstanding it is difficult to predict at this time whether the dissident shareholder will be successful in their proxy campaign. However, it is our understanding that a number of activist-oriented hedge funds and like-minded investors have been accumulating CHE shares through the March 31<sup>st</sup> record date and will likely vote their shares in support of MMI's nominees, making for a narrow election.

#### Background to the Proxy Campaign

The central issue in this election campaign is whether CHE should separate the two businesses now or later. CHE's board has stated that they regularly review the Company's strategy and structure and that, based on their most recent evaluation with their outside financial advisors, they have determined that executing the separation advocated by MMI in the current market environment would be risky. Accordingly, CHE believes the current corporate structure is appropriate during the global economic downturn and the separation of the two businesses will return greater value to shareholders when conditions are right.

MMI believes the process of separating the two businesses will take months and that beginning the process sooner rather than later is in the best interest of shareholders.

*Note: Chemed has hired Lazard Frères & Co and J.P. Morgan Securities as financial advisors to a potential transaction.*

#### COMPANY PROFILE

Previous Close:	40.56
52 -week Range:	29.00 – 50.79
Revenues(TTM):	1.16B
Market Cap:	910M
Enterprise Value:	1.06B
Net Cash:	-147M
EBITDA:	164M
EV/EBITDA:	6.5
P/E	12.5
Dividend Yield	0.6%

#### INVESTOR PROFILE

Principal Activist	MMI Investments
Shares Held by Activist:	800,002
Percent Outstanding:	3.5%
Cost Basis:	Not Available

#### CAPITAL STRUCTURE

Common Shares Outstanding	22,530,217
Preferred Shares:	None
Short Term Debt	10M

### ACTIVIST INVESTOR PROFILE

MMI Investments has been engaged in activist-oriented campaigns for over twelve years. Based in New York City, MMI is managed by Clay Lifflander, a former Director in the M&A Group at Smith Barney and a previous President of the NYC Economic Development Corp. under Mayor Giuliani.

In early 2007 MMI submitted a presentation to the board of Brinks Co. (NYSE: BCO) recommending that the company consider a tax-free spin-off of one of its two business segments. In October 2007 MMI nominated four candidates for election to Brinks' board of directors at the 2008 annual meeting. Following this announcement, MMI garnered additional support for the transaction from two other activist hedge funds, Steel Partners and Pirate Capital. On February 25, 2008 Brinks announced their intention to pursue a spin-off of its Home Security division into a separately owned public company trading under the stock symbol CFL.

All Brinks shareholders received one share in CFL for each share owned in BCO. On October 31 2008, the last day both companies traded together, BCO traded for \$48.49. At the end of business on May 7 2009 BCO traded at \$27.37 and CFL traded at \$27.62, making for a combined share price of \$54.99. For shareholders of BCO, this translates into a 13% increase in value since the spin-off (while the Dow Jones Industrial Average has declined 10% over the same period).

Hedge Fund Solutions, LLC

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## COMPANY PROFILE

Chemed Corp. <http://www.chemed.com> operates in two distinct business segments, Vitas Healthcare, and Roto-Rooter. Vitas Healthcare provides care for terminally ill patients primarily in their homes, but also in nursing homes, assisted living facilities, hospitals, and the company's hospice inpatient units. Roto-Rooter is the largest provider of plumbing and drain cleaning services in North America, operating through 110 company-owned businesses and 500 franchised locations.

## HEDGE FUND SOLUTIONS' VALUE ANALYSIS (IRRESPECTIVE OF THE ACTIVIST'S INVOLVEMENT)

Chemed is an interesting combination of two businesses that while highly unrelated, have fairly inelastic demand. At year end 2008, Vitas Healthcare cared for 12,000 patients in 15 states. Roto-Rooter is a fairly well-known brand that has become synonymous with drain cleaning and plumbing services, and is accessible to more than 90% of the US population and 40% of Canadians. Put together, Chemed is a very profitable company, whose results have not seemingly been negatively affected by the now 18 month long recession.

Fiscal year 2008 revenues rose 9% to 1.149 billion, while net income rose nearly 15% to \$72.1 million. Chemed has a history of both steady growth, and expanding profit margins. In 2008, the company bottom lined 6.2% of sales, up from 2007's 5.8%. Recent quarterly results have also been favorable. While 2009 Q1 sales rose 3.3%, net income grew 21% to \$19.3 million versus the same quarter last year.

The balance sheet is decent. Although Chemed currently has just \$11.9 million in cash, that's par for the course with this company. Total debt is \$159.2 million, \$149.1 million of which is long-term, primarily convertible notes maturing in 2014. Chemed has also been buying back this debt, purchasing \$13 million face value in the fourth quarter for \$8.5 million. Management has demonstrated a commitment to stock buybacks, reducing shares outstanding by 1.8 million shares in 2008 (7.5%), and 1.6 million shares in 2007 (6.1%).

Currently trading at 12.5 times trailing earnings, that's significantly below the company's 5 year average PE of about 25. Current 2010 consensus estimates are calling for earnings of \$3.56 per share, putting the forward PE at less than 12, still considerably below the long-term average.

One of the most pertinent questions is the potential value of the Roto Rooter business, which the company acquired in 1980, and took public in 1985. In 1996, the company reacquired control in a tender offer by purchasing 2.1 million shares for \$41 per share. At the time, the company already owned 2.99 million shares, so the total market value of Roto Rooter was \$212 million, or about 1.18 times 1996 revenue. At 1.18 times 2008 revenue (\$341 million), Roto Rooter would be worth about \$400 million, a figure which might be extremely low for this business. At 1.5 times revenue, for instance, Roto Rooter would be worth \$512 million, 56% of Chemed's current market cap.

## MMI ANALYSIS OF POTENTIAL SPIN-OFF

A review of MMI's analysis regarding a tax-free spin-off can be obtained through their February 12, 2009 press release. <http://finance.yahoo.com/news/MMI-Investments-LP-Calls-on-prnews-14340736.html?v=1>

## IMPORTANT DISCLOSURE INFORMATION

As May 8, 2009 Jonathan Heller and Damien Park do not hold any positions in Chemed Corp.

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## PRINCIPALS



**Damien Park**, President & CEO

Mr. Park is an expert on shareholder activism. He regularly advises boards of directors, CEOs and institutional investors on these issues and is a featured commentator on *RealMoney.com* discussing activist investments.

Damien is often quoted in publications like *The Wall Street Journal*, *BusinessWeek*, *CFO Magazine*, *The Deal*, *CNN Money*, *The New York Times*, *The Nikkei* and *Newsweek Japan*.

In addition, Damien is the chairman of the largest activist investing conference in the world and manages *The Official Activist Investing Blog*.

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**Jonathan Heller**, Partner

Mr. Heller, CFA, is an expert on value investing. He is a Partner at Hedge Fund Solutions, the President of KEJ Financial Advisors and a featured commentator on *RealMoney.com* discussing deep value investments.

Previously, Jon was with SEI Investments after spending 17 years at Bloomberg Financial Markets in various roles which included the management of Bloomberg's Equity Fundamental Research Department and Bloomberg's Equity Data Research Department. Jon was also a senior markets editor of Bloomberg's Publishing Group, a writer for Bloomberg Personal Finance Magazine, and an associate editor and contributor for Bloomberg Markets Magazine.

In addition, Jon manages the blog *Cheap Stocks: Below Net Current Asset Value, Real Estate and other Value Strategies*.

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## PORTFOLIO PERFORMANCE

Catalyst Investment Research Portfolio				
Company	Date	Share Price	Current Price*	Gain
TIER	4-Mar	5.01	6.04	20.6%
AVGN	24-Mar	1.13	1.26	11.5%
CTO	8-Apr	29.03	30.96	6.6%
TECUA	24-Apr	7.60	11.17	47.0%
				<b>21.4%</b>

\* As of market close May 7 2009

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- Timothy Brog

Locksmith Capital Management

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