



Southern Home Medical Equipment, Inc. (OTC PK: SHOM)

August 26, 2008

Southern Home Medical

Ticker:	SHOM
Exchange:	Pink Sheets
Shares Out:	30.94 Million
Est. Public Float:	8.48 Million
Current Price:	\$0.01
Market Cap:	\$0.301 Million
Avg. Volume (3 Mo):	106,814
Industry:	Staffing
Industry P/E:	17.2x
Industry P/Sales:	0.7x
Industry P/Book:	5.4x

Southern Home Medical Equipment, Inc. (OTC Pink Sheets: SHOM), through its Encore Medical Staffing, Inc, subsidiary, is an innovative provider of healthcare staffing services, including Registered Nurses (RNs), Licensed Practical Nurses (LPNs), and Certified Nursing Assistants (CNAs), to hospitals, rehab centers, nursing homes, and other medical practices. Operating on a franchise model, the Company has been able to rapidly expand its geographical operations, with operations in South Carolina, Florida, Kentucky, and Maryland. By the end of the year, the Company will have a total of seven franchise locations, and conservatively plans to operate 30 franchise locations and six corporate owned locations nationwide within three years. Through use of its innovative hybrid franchise/ corporate model, the Company expects to become a significant player in the rapidly expanding \$12.3 billion US healthcare staffing market, and with

the increased demand for healthcare and the projected growth in vacancies in nursing positions, Southern Home is well positioned for expansion.

Investment Highlights

- ☑ On a potential valuation level, and relative to the average trading range and market valuation of a peer grouping of comparable staffing and healthcare staffing companies, Southern Home Medical Equipment, Inc. appears to be priced at a substantial discount, particularly in consideration of the high-margin growth opportunities afforded by the Company's hybrid franchise/ corporate owned expansion model. **By applying the peer grouping's average trailing twelve month earnings multiple to the Company's FY 2009 metrics, we can arrive at an implied valuation for Southern Home Medical Equipment of approximately \$7.0 million, reflecting an implied trading price of approximately \$0.22 per share.**
- ☑ **Well positioned within high-growth \$12.3 billion healthcare staffing market-** since 2006, the healthcare staffing industry has grown at a CAGR of over 6% from revenues of approximately \$10.6 billion. Growth catalysts for the industry include: 1) an aging population with US citizens over 65 expected to grow 14% from 2000 to 2010; 2) increased incidence of chronic disease amongst an aging populace; 3) a shortage of registered nurses to meet demand, from 118,000 vacancies in 2005 (a vacancy rate of 8.5%) this is expected to reach a vacancy rate of 36% by 2020 according to the the US Department of Health and Human Services; and 4) increased acceptance of temporary staffing in the



healthcare field, with approximately 75% of hospitals nationwide now using healthcare staffing for RN positions.

- ☑ **Rapid expansion and regional market penetration-** since launch of the Company's Encore Medical Staffing subsidiary, growth has been impressive, with new locations in Charleston, Columbia, and Greenville, South Carolina; Lebanon, Kentucky; Palm Beach Gardens, Florida; and Baltimore, Maryland. An additional location in Florence, SC will be opened on October 1, 2008. There are myriad opportunities for expansion- the state of North Carolina represents up to 10 potential franchise locations alone, with the entire country representing more than 500 potential locations. The Company's turnkey operations model, which enables franchisees to complete all necessary back-office, compliance, marketing, and other strategies in a rapid period of time, means that a new franchise can be opened in approximately 60 days.
- ☑ **Scalable and efficient hybrid franchise/ corporate mode-** an integral component of the Company's future top and bottom line growth will be the anticipated roll-out of Company owned and operated staffing locations, in addition to a rapidly expanding base of highly profitable franchisees. The Company's underlying business model focuses on a centralized staffing infrastructure providing it with significant operating efficiencies in recruiting, advertising, marketing, and placement. These systems are scalable and designed to accommodate rapid future growth.
- ☑ **Strong management team with extensive entrepreneurial, healthcare, and franchise experience-** helmed by Greg Tucker, President and CEO, has played a critical role in the development of the Company's promising hybrid franchise/ corporate location model. Mr. Tucker brings over 14 years of medical equipment managerial experience, and brings extensive franchise operations management, including the oversight of operations for 500 restaurant franchise locations, in a 16 year career in the food service industry. Jeff Sarvis, Director and head of Encore Medical Staffing, brings extensive franchise and start-up experience.
- ☑ Based upon the rapid rollout of franchise operations, and the planned rollout of corporate owned staffing locations, we conservatively estimate that the Company will have seven franchises and one company location operational **by the end of fiscal 2008, generating revenues of approximately \$140,000 with net income of \$53,000.** As Southern Home Medical Equipment scales up its operations with the addition of new franchises and two corporate owned locations in 2009, we expect revenues to reach \$1.06 million in 2009 with earnings of \$409,000, growing to \$2.1 million in revenues and net income of \$910,000 in 2010.



Company Overview

Southern Home Medical Equipment, Inc. (OTC Pink Sheets: SHOM), through its Encore Medical Staffing, Inc. subsidiary, is an emerging and innovative new player in the rapidly growing \$12.3 billion healthcare staffing industry. The Company has developed a streamlined and efficient best-of-breed healthcare staffing service solution, with the provision of registered nurses (RN's), licensed practical nurses (LPN's), certified nursing analysts (CNA's), occupational therapists, physical therapists, speech therapists, home health aides, and home sitters, providing flexible temporary and contract staging assignments in addition to per diem work to hospitals, rehab centers, nursing homes, and other medical facilities. Encore Medical Staffing has created a highly efficient and effective operational model for rapid expansion and national market penetration in a relatively



SHOM Earnings Model 2008 - 2010

	2008	2009	2010
Corporate Locations	1	3	6
Franchise Locations	7	20	32
Corporate Revenues	\$11,000	\$380,000	\$815,855
Expenses	\$16,688	\$306,237	\$583,961
Total Corporate Inc.	-\$5,688	\$73,763	\$231,894
Franchise Revenues	\$130,592	\$684,600	\$1,268,000
Royalty Revenues	\$149,455	\$619,500	\$1,155,009
Expenses	\$49,200	\$173,798	\$198,830
Total Franchise Inc.	\$81,392	\$510,802	\$1,069,170
Total Revenues	\$141,592	\$1,064,600	\$2,083,855
Expenses	\$65,888	\$480,035	\$782,791
EBITDA	\$75,704	\$584,565	\$1,301,064
Taxes	\$22,711	\$175,370	\$390,319
Net Income	\$52,993	\$409,196	\$910,745

Source: Proteus Research Estimates

rapid time frame through the use of a proven franchise model concurrent with the operation of several corporate-owned staffing centers.

Since beginning operations in early 2008, the Company has launched franchises in Lebanon, Kentucky, Charleston, Columbia, and Greenville, South Carolina, Palm Beach Gardens, Florida, and Baltimore, Maryland, with an additional location in Florence, South Carolina scheduled to open in October 2008. The Company has also sold the rights to develop the state of North Carolina (with an



estimated 10 markets) and the Myrtle Beach, Florida markets to Aegis Medical Solutions, LLC, while Atley Ace, LLC has purchased the rights to develop the state of Maryland. The Company estimates that there are more than 500 potential market locations nationwide for Encore Staffing operations, and intends to pursue an expansion program balanced on a 4:1 ratio of franchise locations to corporate owned locations. In late 2008, the Company intends to open a corporate owned and operated location, significantly improving top and bottom line growth; in 2009, Encore plans to achieve 20 franchise locations and 3 corporate locations, growing to 30 franchise locations and 6 corporate owned operations in 2009.

Industry Overview

US healthcare spending increased 6.7% to \$2.1 trillion, up from \$2.0 trillion in 2005, according to market data from the Centers for Medicare and Medicaid Services, with spending on hospital services the single largest component of healthcare expenditures at 31% and with growth of 7% in 2006 to \$648 billion. As the US population ages and as increasingly advanced medical procedures and technologies require more specialized and highly trained medical professionals, the industry is faced with a profound shortfall of medical professionals, especially with an aging population of registered nurses (RNs). Increasingly, and complimenting an industry wide focus on cost efficiency, hospitals and other healthcare facilities have used outsourced staffing as a means to supplement their own labor force, cut costs, and meet increased demand. The underlying growth in demand for healthcare staffing services is due to an increased demand for healthcare services while the US population ages, and as the RN and allied health professionals also age, and are projected to decline. The number of persons over age 65 was 35 million in 2000, a number that is anticipated to reach 87 million in 2050, while healthcare spending for this age group is over four times higher for those over 65 than any other group. While life expectancy is at its highest in US history at nearly 78 years, the instance of serious disease among the elderly population is nearly ubiquitous, with 80% of persons 65 or older having at least one chronic condition, such as diabetes, arthritis, or cancer; in 2005 persons aged 65 or older accounted for 38% of all medical inpatients

Southern Home Medical Equipment, Inc. is extremely well positioned within a burgeoning healthcare staffing industry with annual revenues of approximately \$11.2 billion in 2007, projected to grow more than 7% in 2007 to \$12.3 billion as medical care organizations face an acute shortage of trained personnel, according to estimates from market research firm Staffing Industry Analysts,



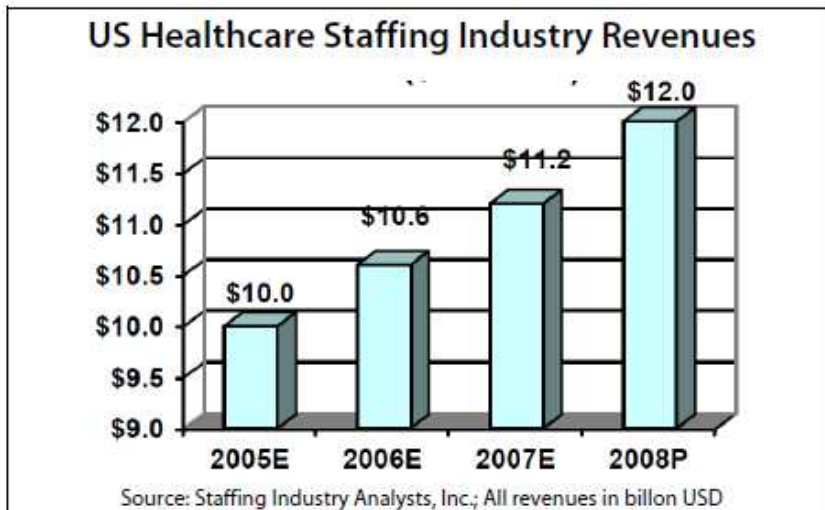
Inc. Among an aging US population, with those over 65 years of age expected to grow more than 14% from 2000 to 2010, and many healthcare facilities cannot meet the increased demand posed by an aging US population on their permanent medical staff.

The effects of these demographic shifts are particularly acute in the nursing field, with the national RN vacancy rate at 8.5% in 2005, equating to 118,000 unfilled positions nationwide according the American Hospital Association. Increased demand for nursing staffing services will be significant over the near term. According to the US Bureau of Labor Statistics predicts that more than 1.2 million new and replacement nurses will be needed by 2014, with 703,000 new Registered Nurse

positions alone being created over this period.

The Department of Health and Human Services has reported that the registered nurse workforce is expected to be 36% below projected requirements by 2020.

Demographic shift of the registered nurse



population is anticipated to be an additional factor in this shortage, the average age of an RN was 47 years old in 2004, an increase of 10.6% since 1996.

The demand for nurses and other healthcare professionals has created a unique opportunities with the flexible staffing model afforded with outsourced staffing services. Increased nurse's wages are the largest segment of hospital labor expenses; as the healthcare industry increasingly focuses on cost-effective operations, many healthcare facilities are using flexible staffing models to streamline operations, including the use of temporary healthcare professionals. The adoption of this business model has been widespread and as many as 75% of hospitals now use temporary nurses, according to a recent study from the PricewaterhouseCoopers' Health Research Institute. According to studies from the University of Pennsylvania," hospital use of temporary RNs does not



lower quality of care because these nurses are just as qualified – and in many cases more qualified – than permanent staff nurses”.

The healthcare staffing is highly fragmented and competitive, with the 10 largest firms accounting for less than one third of the entire segment’s revenue base. Increasingly, consolidation is becoming a factor in the industry as it expands with mainstream staffing firms acquiring market position through mergers and acquisitions. As healthcare providers seek even more efficient and less costly solutions, they seek one-stop-shop providers with a wide array of services, improved processing time, and purchasing economies. Moreover, many industry players are aggressively expanding through M&A activity to gain regional coverage and increase their service suites. Through its franchise model to rapidly gain scale and market penetration, we believe that Southern Home is well positioned to benefit from these industry trends.

Southern Home Medical Equipment, Inc. Comparative Valuation Analysis

Company	Ticker	Price	Mkt. Cap.	Revenues	RPS	Earnings	EPS	P/R	P/E
Medical/ Healthcare Staffing									
AMN Healthcare Services	AHS	\$17.46	\$590.7 M	\$1.19 B	\$35.12	\$38.0 M	\$1.11	0.50	15.73
Cross Country Healthcare	CCRN	\$15.47	\$474.9 M	\$717.0 M	\$22.85	\$26.5 M	\$0.84	0.68	18.42
Kelly Services	KELYA	\$20.37	\$709.0 M	\$5.7 B	\$161.99	\$51.6 M	\$1.48	0.13	13.76
Medical Connections Holdings	MCTH	\$2.60	\$67.5 M	\$5.4 M	\$0.34	(\$8.8 M)	(\$0.43)	7.65	na
Medical Staffing Network Hldng.	MRN	\$2.72	\$82.5 M	\$586.1 M	\$19.35	(\$54.7 M)	(\$1.80)	0.14	na
On Assignment	ASGN	\$8.99	\$322.2 M	\$609.2 M	\$17.69	\$13.97 M	\$0.40	0.51	22.48
Spherion Corp.	SFN	\$5.39	\$286.7 M	\$2.22 B	\$39.91	\$26.5 M	\$0.41	0.14	13.15
TeamStaff	TSTF	\$2.15	\$10.4 M	\$65.9 M	\$13.59	(\$1.6 M)	(\$0.64)	0.16	na
VirtualScopics	VSCP	\$0.62	\$14.5 M	\$6.0 M	\$0.26	(\$5.6 M)	(\$0.24)	2.38	na
Southern Home Medical Equipment, Inc. Comparative Valuation Analysis								1.36	17.07
Source: Thomson ONE Analytics; All Earnings and Revenue Date Trailing Twelve Months; Current as of August 11, 2008									

Potential Valuation Analysis

In order to benchmark Southern home Medical Equipment’s anticipated financial performance and to help arrive at some understanding of its potential valuation on the public marketplace, we have undertaken an analysis of the current trading valuations and financial performance of publicly



traded companies engaged in similar operations to the Company- specifically in medical and healthcare staffing. We believe that Southern Home is well positioned through its highly efficient and financially viable franchise/ corporate model, which will afford the Company economies of scale and rapid market penetration. The companies within this peer grouping currently trade at an average price to earnings multiple of 17.1x and at an average price to revenue valuation of 1.4x. *Therefore, by applying the grouping's average price to earnings multiple to Southern Home Medical Equipment, Inc.'s anticipated fiscal 2009 financial results, we can imply a relative valuation of approximately \$0.22 per share for the Company.*



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