

St. John's University Undergraduate
Student Managed Investment Fund
Equity Research as of April 27th, 2006

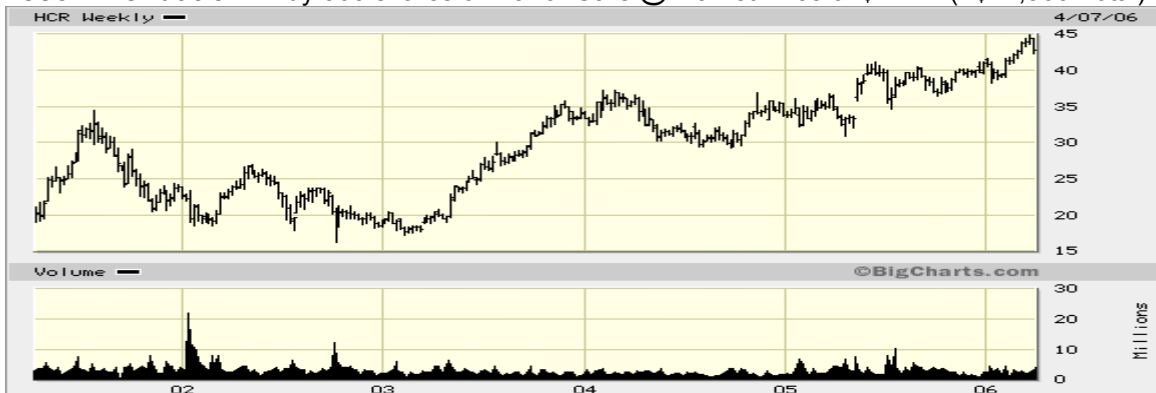
ManorCare



Stock Data:

Ticker: (NYSE: HCR)
Industry: Long-Term Health Care (primary)
Current Price: \$42.72
Target Price: \$69.58
52 Week Range: \$30.87-\$44.89
Average Volume: 624,336
Market Cap: \$3.38B
EPS: \$1.89
EPS 06 (est.): \$2.14
P/E: 22.57
P/E 06 (est.): 21.39

Recommendation: Buy 500 shares of Manor Care @ Market Price of \$42.72 (~\$21,360 Total)



Analysts: Robert Shamis, Mike Sirignano, Amelia Barbagallo, Nick Antaki

Executive Summary

After analyzing Manor Care, Inc.'s financials, industry, and future outlook, we are recommending the purchase of 500 shares of Manor Care at Market Price. Manor Care is a leader in its industry, boasting a well diversified range of care services to a growing market. Our decision was based on the following criteria:

- Growing Rate of Expansion of the elderly population in their market and superior service to that market.
- Our relative valuation measures provided us a Target price of \$69.58, where the stock is currently trading at \$42.72. This demonstrates that the stock is undervalued.
- Technical analysis demonstrates upward momentum.

For these reasons, we believe that Manor Care will be a strong addition to the Student Managed Fund Portfolio.

Company Overview

Since its inception in September 1998, Manor Care has been providing a range of health care services, including skilled nursing care, assisted living, sub-acute medical and rehabilitation care, rehabilitation therapy, home health care, hospice care, and management services for sub-acute care and rehabilitation therapy. Operating as HCR Manor Care in more than 30 states, Manor Care runs about 280 nursing homes under the Heartland and Manor Care names, along with another 65 assisted living and outpatient facilities.

The most significant portion of the company's business is related to skilled nursing care and assisted living. Certain centers have medical specialty units that provide sub-acute medical and rehabilitation care, and/or Alzheimer's care programs. The company's assisted living facilities operate under the brand names Arden Courts (54) and Springhouse (11). Arden Courts facilities specifically focus on providing care to persons suffering from early to middle-stage Alzheimer's disease and related memory impairment, while Springhouse facilities serve the general assisted living population of frail elderly. These facilities provide housing, personalized support and health care services in a non-institutional setting designed to address the needs of the elderly or Alzheimer's afflicted.

HCR provides rehabilitation therapy in its long-term care centers, other skilled nursing centers, hospitals, and 91 outpatient therapy clinics serving states in the Midwest and Mid-Atlantic, as well as Texas and Florida. Geographically, more than 60% of Manor Care's homes are in Florida, Illinois, Michigan, Ohio, and Pennsylvania. The company provides program management services for sub-acute care and acute rehabilitation programs in hospitals and skilled nursing centers.

In 2004, HCR divested 16 skilled nursing centers and five assisted living centers. The company opened two new nursing centers and eight hospice and home health care centers, and completed seven nursing center expansions. In 2005, the company acquired

two hospice operations, one oncology home care business, and began construction on one inpatient hospice facility. In addition, HCR opened one new nursing center and completed seven nursing center expansions. As of December 31, 2005, four nursing centers were under construction and 28 nursing center expansions were ongoing.

Manor has been successful growing this business due to the wide array of services they can provide, including infusion pharmacy products as needed by patients. By diversifying their business operations and with the growing age of the overall population, their long-term care operation has massive growth potential. Here is a breakdown and description of the various services Manor Care provides:

Home Care

Home health care encompasses medical care services delivered in the home by Non-facility-based home health care agencies (HHAs). Home care can be appropriate for recovering, disabled, or chronically or terminally ill persons who need medical, nursing, social, or therapeutic treatment and/or assistance.

Hospices

Hospice care provides medical, psychological, and spiritual care for terminally ill patients and their families. Hospice care can be delivered in a freestanding hospice facility or in the home by a home health agency.

Assisted Living

Assisted living residences help residents with activities of daily living, but do not always provide round-the-clock access to skilled health care. Generally, assisted living programs provide and/or arrange for provision of daily meals, personal and other supportive services, and health care, and they provide 24-hour care services of residents in the facility. Assisted living may also be known as personal care, residential care, or domiciliary care.

Specialty Facilities

Specialty facilities provide services for patients in need of intensive health-care services that are beyond the normal capacity of skilled nursing facilities. Long-term hospitals and sub-acute care—also known as post-acute care—facilities used to be primary sources of care in this group, but it is now being offered by acute-care hospitals, skilled nursing facilities, home health agencies, and assisted living facilities.

Industry Analysis

Industry Overview

Manor Care is part of the Health Care Services industry. Primarily, it is classified as a long-term care company. This includes companies that operate long-term care facilities such as assisted living centers and nursing and retirement homes, as well as provide various health care services. According to yahoo.finance.com, Manor Care is one of the top performers in its industry.

The U.S. long-term care industry experienced strong growth from 1999 through 2004 and this growth is expected to continue through the end of the decade. Indeed, the aging of the U.S. population will push unprecedented demand for all forms of long-term care, but ongoing cost containment issues continue to pressure both private and public managed care organizations and make competition in this dynamic environment challenging.

One of the most significant opportunities in the Health Care Industry at this time is the fact that people are living longer and requiring more care. According to an article in Business Journal (March 31, 2006), health care industry investments are outpacing all other investment sectors. The US health care services market, the world's largest, is worth about \$1.7 trillion. The U.S. population continues to age, with the proportion of elderly growing at a pace double or triple that of the overall population. While the expansion rate of individuals under age 65 had essentially tracked overall population growth, at 1.3% per year between 1900 and 2000, the number of persons between the ages of 75 and 79 rose by 1.9%; the number of individuals between 80 and 84 grew by 2.3% and the 85 and older group expanded by 3.2%. If prior rates of expansion continue as expected, the population of individuals over age 65 will reach 38.6 million in 2009. A driving factor in the aging of the population is the increase in life expectancy. In 1900, life expectancy was 47 years. By 2003, however, average life expectancy had reached an all time high of 77.6 years. Through 2009, life expectancies will continue to rise, resulting in expected average life expectancies reaching 79.1 years in 2009.

**The Overall U.S. Long Term Care Market by Type
(Nursing Home Care, Home Care, Hospice Care, Assisted Living)
1999–2009¹**

Year	Market Size (in billions)				Total	Growth
	Nursing Home Care	Home Care	Hospice Care	Assisted Living		
1999	\$92,315	\$35,683	\$3,255	\$25,500	\$156,753	-
2000	97,854	38,210	3,870	28,943	168,876	7.7%
2001	103,921	41,570	4,826	32,994	183,311	8.5%
2002	110,571	45,228	6,015	37,779	199,593	8.9%
2003	117,869	49,299	7,886	43,445	218,500	9.5%
2004	125,884	53,834	9,867	50,179	239,764	9.7%
2005	134,696	58,895	11,851	58,208	263,650	10.0%
2006	144,394	64,548	13,760	67,813	290,515	10.2%
2007	155,079	70,874	15,564	79,341	320,859	10.4%
2008	166,866	77,962	17,294	93,225	355,347	10.7%
2009	179,881	85,914	19,042	110,006	394,843	11.1%

¹ This chart was taken from Kalorama Information

As plainly demonstrated through these numbers, Manor Care is in a business that will always have customers. Though the population can contract, there is only a minute chance that the entire population will be wiped out. Therefore, there will always be a need for a percentage of the US population to need long-term care and the industry as a whole faces little risk from this perspective. Particularly, from time frame perspective, Manor is facing an influx of the population needing long-term care, as the majority of the population ages. The company, through its nursing centers, offers physical, speech, respiratory, and occupational therapy for patients recovering from strokes, heart attacks, orthopedic conditions, illnesses, and injuries or disabilities. These centers also provide nutrition services, social services, activities, housekeeping, and laundry services. The company's assisted living centers offer dressing, bathing, meal preparation, and medication management services. It provides medical and rehabilitation programs for patients recovering from major surgery; severe injury; or cardiovascular, respiratory, infectious, endocrine, or neurological illnesses. The company also offers home health care service, as well as services and facilities for patients suffering from Alzheimer's disease; hospice services that focus on the physical, spiritual, and psychosocial needs; services related to wound care and dressing changes; infusion therapy; cardiac rehabilitation; and physical, occupational, and speech therapies, as well as assists with daily activities, such as personal hygiene, assistance with walking and getting in and out of bed, medication management, and light housekeeping. In addition, it provides rehabilitation therapy in outpatient therapy clinics, as well as at work sites, schools, hospitals, and other health care settings.

The State of Long Term Care Today

In 2004, there were approximately 13,000 nursing facilities in the U.S, housing 1.8 million beds and 1.6 million residents. This represents a decline from some 16,700 nursing homes in 1995 and more than 19,000 in 1985, and is due to restrictive legislation that constrains the supply of licensed skilled nursing facility beds as well as high construction costs and limits on government reimbursement for construction and start-up expenses.

Geographically, California contains the highest number of nursing home beds, followed by New York, Texas and Illinois. Nursing homes in New York are the largest in the country, at an average size of 179 beds. Across the U.S., the majority of nursing homes remain proprietary, with about a quarter operating on a nonprofit basis and less than 10% either government-owned or owned by other entities. In 2004, the majority of nursing homes had both Medicare and Medicaid certification, while less than 5% had no certification at all.

While the cost of home care depends on a variety of factors including the patient's geographic location and the type of services provided, an August 2005 study conducted by the MetLife Mature Market Institute, estimated the average U.S. cost of home care at \$19 per hour, up 5.5% from \$18 per hour the prior year. However, all aspects of home care must be weighed to determine the true cost. Since patients are being treated in the home, they may require care from members of the household, requiring caregivers to cut back on time spent on jobs outside the home, thereby reducing income. On the other hand, for

patients who live alone, the cost of home healthcare must be added to the full cost of housing expenses. Therefore, expenses must generally be considered on a case by case basis to determine which long term care option is most cost effective.

Market Trends

As with other aspects of the health-care industry, much of the long-term care industry is now striving to offer “one-stop shopping” to patients and managed care providers. For managed care providers, it is much easier and more efficient to contract with one provider in an area who can handle several—or all—required services; for patients, a change in care needs will be less traumatic because the patient is already familiar with the provider’s operations and services.

Long-term facilities are adding post-acute care (also known as sub-acute), Alzheimer’s and dementia care, and other types of specialty care. Manor Care has followed suit with this trend. By adding such services, facilities are able to attract higher-acuity patients with higher reimbursement rates and a higher private-pay mix. This trend is also one that is better taken advantage of by larger chains or facilities. Large providers may be able to contract with managed care organizations and be able to attract enough patients to be able to justify dedicated wings or entire facilities. By having such patients centered in one location, rather than having a few specialty patients in each facility, a provider will be able to justify in-house staffing, rather than contracting out services, making the operation much more financially rewarding.

Another specific issue for the long term care industry is quality of care. This problem is particularly acute for residential care such as assisted living and nursing care. Although most care providers understand that they must provide as high a level of quality as possible in order to maintain peak occupancy, this is often difficult due to financial pressures arising from low Medicaid reimbursement rates and continually rising expenses. Several state and federal initiatives have been implemented to address quality of care, particularly in the nursing home sector. The most significant step in this area was the passage in 1987 of the Nursing Home Reform Act (NHRA), requiring annual facility inspections. The law also mandated a reduction in the use of unnecessary drugs and physical restraints; and increased the requirements for licensed practical nurses (LPNs) and registered nurses (RNs) on staff. More recently, CMS instituted Nursing Home Compare, a national initiative to publicly report quality measures to improve the quality of care of each Medicare and Medicaid certified nursing facility.

These initiatives have achieved varying levels of success, with many studies showing that still more needs to be done. Many residential programs such as nursing homes and assisted living communities have been found to lack basic safety precautions such as fire prevention tools. Despite the practice of many long term care providers to require criminal background checks of all employees, resident abuse persists, particularly in the nursing home segment. In the home care segment, patient abuse and gross neglect tends to be less common than in the residential segments due to the greater independence of care recipients. However, cost structures of the home healthcare industry often lead to

substandard care. Inappropriate staffing can also raise personal safety issues for homecare patients, since home health workers often have keys to care recipients' homes and generally have unrestricted access to all of their possessions and valuables.

Analysis of Competitive Forces

Rivalry

In the long term care industry, customers are looking for affordable trustworthy care for their loved ones. Most often, they seek a location that can offer a variety of on-site medical and therapeutic services, while also providing a superior level of care. If a facility lacks adequate staffing, equipment, or services, this can spell immediate danger to the company's survival. Due to the fact that a newer, more aesthetically pleasing facility could technically enter the market at any time forces companies like Manor Care to continually make improvements to its operations.

Threat of New Entrants

As in any business, any new competition can pose a threat on the operations. Specifically in the long term care industry, a newer facility can appear to be better equipped, cleaner, and thus, a better fit for the patient. Manor's responsiveness to this factor would be measured in its ability to keep equipment and facilities up to date and current with the necessities of the customer, as well as the technology that influences the day to day operations of the facilities.

Threat of Substitute Products

In the case of the long term care industry, substitute products can be interpreted as an alternative form of care, perhaps hospitalization or home care. Due to the fact the Manor combines many of these services into their primary operations, it has faced this perspective threat by introducing 'one-stop' care to its patients and diversifying the services to meet diverse customer (or in this case, patient) needs. Also it is one of the most recognizable names in the industry allowing them to capture more market share due to the notoriety.

Bargaining Power of Suppliers

The Long Term Care industry is composed of companies which "supply" a service to people in need of care. From this perspective the company has a great deal of bargaining power, in that there is an emotional aspect involved in the decision to use their care services. The customer is usually a family member of the patient and wants to be assured that the best care will be given to their loved one. The supplier is thus at an advantage in that once the customer is impressed, they will be less likely to "shop around" to other facilities.

Bargaining Power of Buyers

Customers of long-term care facilities are looking for places that they can call homes, either for themselves or for their loved ones. Therefore, if they are not pleased by the appearance or the variety of services offered, they will be more than likely to take their business elsewhere. It is extremely important for the facility to recognize this and create the most pleasant and inviting atmosphere as possible when acquiring new patients.

Competitive Strategy

The strategic plan for Manor Care, as indicated in the 2004 Annual Report highlights the strengths of the Company and how they intend on utilizing many of their opportunities. Firstly, its aim is to increase occupancy in their nursing centers. Another goal is expanding the number of services which they can offer. They have expanded their capabilities and skill set to care for these more medically complex patients. Similarly, they are looking to expand geographically. They have an already developed core nursing presence in a wide market span, especially in the states of Ohio, Pennsylvania, Florida, Illinois and Michigan, and they are using this respected foundation to build a presence for hospice, home care and outpatient rehabilitation services.

Building for the future is another high priority. Manor is identifying markets where demand for specialty services supports new nursing center construction. They are expanding our capabilities in proven markets, and in 2004, they completed seven nursing center expansions, with 17 expansions ongoing. Manor Care also hopes to expand its strategic alliances. They currently own 97 percent of the facilities they operate, but recognize the fact that there are also opportunities to partner with others and bring value to assets we do not own. Alliances with Omnicare and Health Management Associates show the positive aspects of partnering to expand services and in turn, penetrate markets.

As seen from these goals, Manor Care is responsive to the trends of the industry as well as the needs of their potential customers.

Corporate Management

Paul A. Ormond, 56

Chairman, President and Chief Executive Officer since August 1991, Chairman of the Board since 2001, and from August 1991 to September 1998.

M. Keith Weikel, 67

Senior Executive Vice President and Chief Operating Officer since August 1991.

Geoffrey G. Meyers, 61

Executive Vice President and Chief Financial Officer since August 1991.

Stephen L. Guillard

Executive Vice President since June 2005; prior to this, he was the Chairman and CEO of Harborside Healthcare Corporation from 1988 to May 2005.

R. Jeffrey Bixler

Vice President, General Counsel and Secretary since December 1991.

Corporate Management Highlights

As in any company, management plays an integral role in the success of the business. In recent news, Manor Care appointed a new CFO, Steven M. Cavanaugh, former VP and Director of Corporate Development, replacing a retiring Geoffrey G. Meyers. This seems like an expected move for the company, whose overall corporate management strength is healthy.

An additional change was the naming of Matthew S. Kang as treasurer of Manor Care, reporting to Geoffrey G. Meyers, executive vice president and chief financial officer. He formerly was assistant treasurer, director of finance since 2004. He joined the company in 2003 as a senior project manager after 6 years of finance and management consulting experience with Deloitte & Touche, Exelon Corporation and Arthur Andersen. He advanced to the position of assistant treasurer in 2004, a position he held until adding the director of finance title later in 2004.

It is managed by a nine person Board of Directors and a vast team of highly experienced managers, including President and CEO Paul Ormond, who has been with the company since August 1991. Senior Executive Vice President M. Keith Weikel has been with the company since 1991 as well. Typically, the members of the Board of Directors and corporate leadership have been with the company for 15-20 years, signaling a strong and healthy corporate environment in which corporate management feels comfortable and performs well.

Additional Management Strategies

One of Manor Care's most impressive and distinct strategies is their focus on the patient. Taken from their Annual report:

“We pride ourselves on our training and the educational materials we produce for our caregivers. It is equally important that our caregivers understand why our patients are experiencing the problems they have. We need to make sure we are looking at the person, that we understand the root cause of his or her issue, and that we match our care to that person's needs. One solution will not work for all patients, so our education is focusing on looking at patients as individuals. One of the ways our caregivers learn about our patients and residents is through our Guardian Angel program. We have discovered that when a person comes to us, it is vital that he or she receives the support and encouragement needed to achieve his or her outcome goals. Our Guardian Angel program matches a staff person with each patient at the time of his or her admission. Guardian Angels learn as much as they can about those they are matched with – their families, activities they have enjoyed in their lives, their work and other things that matter most to them. This interaction not only assists in building a relationship, but also can uncover information that could be helpful in a patient's plan of care. In addition, it gives the patient or family member the opportunity to more quickly express any concerns and help get them rectified before they become serious issues. The program continues to be rolled out to each of our centers.”

Manor Care prides itself on its ability to see the individual patient needs and use this as its primary business strategy.

Recent News

Most recently, Manor Care released earnings for posted a better-than-expected quarterly profit helped by better occupancy rates and its ability to stem losses from cuts in reimbursements from Medicare. The company noted a ten-year high of 90 percent occupancy and said revenue at its hospice unit grew 25 percent. This is excellent news in the face of the industry which is facing losses due to drug recalls and malpractice.

Manor Care appointed a new CFO, Steven M. Cavanaugh, former VP and director of Corporate Development, to replace a retiring Geoffrey G. Meyers. This seems like an expected move for the company, whose over all corporate management strength is healthy. Also, as of January 2006, Manor Care released that they will be authorizing patient care with the use of Medicare Part D. Manor Care, Inc. announced that all eligible patients within 276 nursing centers will receive their medications under the program. In addition, a prescription drug plan has been identified for 100% of Manor Care's patients who are dual eligible. This makes the company overall more attractive to potential consumers, in that they are able to participate in these benefits.

Relative Industry Valuation

(Charts created at BigCharts.com)

The chart below shows the industry's performance to the S&P 500 over the past year. Following the industry trend throughout the last quarter of 2005, Manor has been significantly outperforming the S&P 500 index for the past 2 months.



This second chart follows a similar pattern. Manor has not only outperformed the industry, but also the S&P 500 index over the past two months. Prior to this period, it followed the performance of the index very closely, with similar peaks and valleys in performance.



Financial Ratio Analysis

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>Estimated</u> <u>First Quarter 2006</u>	<u>Estimated Full-Year</u> <u>2006</u>	<u>Sun Healthcare</u> <u>Group Inc. 2005</u>	<u>Kindred</u> <u>Healthcare Inc. 2005</u>	<u>Industry</u>
Liquidity Ratios									
Current Ratio	0.80	1.51	1.34	1.17	0.31	1.26	0.73	1.60	1.29
Avg. Collection Period	47.79	50.96	53.53	51.48	13.77	55.08	45.81	46.39	47.89
Receivables Turnover	7.53	7.48	7.55	7.40	1.98	7.92	7.90	8.90	9.70
Asset Turnover Ratios									
Total asset turnover	1.22	1.28	1.35	1.46	0.39	1.56	2.130	2.34	1.40
Fixed Asset Turnover	1.89	2.00	2.15	2.30	0.62	2.46	4.70	7.52	4.84
Profit Ratios									
Return on Assets	5.52%	5.04%	7.10%	6.88%	1.84%	7.36%	5.98%	8.64%	5.70%
Net Profit Margin	4.54%	3.93%	5.24%	4.71%	1.26%	5.04%	2.81%	3.69%	4.18%
Gross Profit Margin	17.30%	16.70%	17.50%	17.50%	4.68%	18.73%	39.80%	85.62%	43.72%
Operating Margin	8.50%	7.20%	9.10%	8.60%	2.30%	9.20%	23.00%	5.40%	12.33%
Return on Equity	12.79%	11.95%	17.17%	18.31%	3.92%	19.59%	16.50%	16.60%	16.50%
Leverage Ratios									
Debt to total assets	27.50%	27.59%	23.83%	31.34%	8.38%	33.53%	40.84%	1.85%	24.68%
Equity Multiplier	2.30	2.37	2.42	2.67	0.71	2.85	-6.56	2.11	-0.59
Debt to Equity	0.63	0.68	0.57	0.95	0.16	0.65	2.02	0.04	0.85
*DuPont Breakdown of ROE	12.79%	11.95%	17.17%	18.31%	3.92%	19.59%	-39.22%	16.60%	16.50%

DuPont Breakdown of Return on Equity ROE = NPM X TAT X EM

Manor Care Fiscal Year	Return on Equity = (Net Income / Average SE)	Net Profit Margin X (Net Income / Sales)	Total Asset Turnover X (Sales / Average Total Assets)	Equity Multiplier (Average Total Assets / Average SE)
2002	12.79% =131664 / ((1016047+1046538)/2)	4.54% =131864 / 2905448	1.22 =2905448 / ((2424071+2329072)/2)	2.30 =((2329072+2424071)/2) / ((1016047+1046538)/2)
2003	11.95% =119007 / ((975105+1016047)/2)	3.93% =119007 / 3029441	1.28 =3029441 / ((2396711+2329072)/2)	2.37 =((2396711+2329072)/2) / ((975105+1016047)/2)
2004	17.17% =168222 / ((984159+975105)/2)	5.24% =168222 / 3208867	1.35 =3208867 / ((2340698+2396711)/2)	2.42 =((2340698+2396711)/2) / ((984159+975105)/2)
2005	18.31% =160955 / ((773723+984159)/2)	4.71% =160955 / 3417290	1.46 =3417290 / ((2350464+2339234)/2)	2.67 =((2339234+2350464)/2) / ((773723+984159)/2)
Sun Healthcare 2005	-39.22% =24761/((-2895+-123380)/2)	2.81% =24761/882109	2.130 =882109/((512306+315915)/2)	-6.559 =((512306+315915)/2)/((-2895+-123380)/2)
Kindred Healthcare 2005	16.60% =144909 / ((870536+719785)/2)	3.69% =144909 / 3923999	2.34 =3923999 / ((1760561+1593293)/2)	2.11 =((1760561+1593293)/2) / ((870536+719785)/2)

Current Ratio- The current ratios has been increasing for the past three years but in 2005 the ratio decreased. The reason that this happened was because total current assets decreased from the year before and total current liabilities increased. The decrease in current assets was due to a decrease in cash and cash equivalents and a decrease in other current assets.

Average Collection Period- The average collection period has been increasing. This is not good because as a company you want to get your money as quickly as possible. It has increased from 2002-2004 but decreased in 2005. The reason that this has happened is that there was an increase in receivables of \$69.3 million.

Receivables Turnover – The receivables turnover ratio has remained in the 7.40-7.55 range throughout the last four years, well below the industry average 9.7. A low number such as this typically suggests the company may be having difficulty collecting their own receivables, possibly impairing their ability to pay their suppliers on time. In 2005, this ratio dropped from 7.55 to 7.40, something that the company should work on improving. This could indicate that the company is not being aggressive enough in collecting debts in a timely fashion. Also, it would appear that both patients and insurance companies are taking extended periods of time to pay their bills. In the case of insurance companies, there is a possibly that increased inflows of claims from clients have backed up processing and payout time.

Total Asset Turnover- The total asset turnover ratio has been steadily increasing from 2002-present. This is a good sign it shows that the firm is steadily generating more sales and therefore more revenues from its assets. The higher this ratios the better, it shows that the firm is being more efficient in turning its assets into revenues.

Fixed Asset Turnover – The fixed asset turnover ratio brings up some very serious issues for this company. Although it has improved incrementally year-over-year from 2002 through 2005, this ratio still remains at less than half the industry average and far below its biggest competitors. As it is known, a higher ratio indicates greater efficiency, while a lower ratio indicates lesser efficiency; therefore the organization is going to have to put substantial effort towards streamlining its fixed asset investment activities in order to raise this ratio. The best way to do this would be to take advantage of low priced debt instead of equity in order to raise capital and expand into growing markets with high demand. By doing this, the company can potentially see dramatic increases in sales, which will raise the ratio.

Return on Assets- The ratio has been increasing from 2002-2004 but in 2005 it decreased. This ratio shows how well a company is turning the money it has to invest into net income. The ratio has decreased 2005 because both net income and total assets in 2005 decreased from the previous year.

Net Profit Margin- Net profit margin has been fluctuating up and down since 2002. The reason why the ratio is down in 2005 is that net income was down from the

previous year. Net income was down in 2005 because the company bought back its senior notes outstanding and this generated a special cost of \$21.1 million.

Gross Profit Margin- The gross profit margin ratio is another immense problem that the company must address. In the past two years, the company has managed to slightly improve their gross profit margin over 2002 and 2003; however these numbers still come in at less than half that of their two largest competitors in the industry. Clearly, this company needs to work on its efficiency processes and do all they can to cut costs.

Operating Margin- The Operating Margin of this company remains more than 30% below the industry average following slightly increases in the past two years. A business that has a lower operating margin than its industry's average usually tends to have higher fixed costs and a lower gross margin, which explains the poor gross profit margin numbers above. The operating margin has been decreasing while the gross profit margin has been increasing since the company's operating profit has not increased as much as operating expenses, therefore reducing operating margin.

Return on Equity- The Company's return on equity has improved nicely year-over-year for the past 3 years and most recently was reported in 2005 at 18.31%, greater than the industry average 16.5%. Return on equity is one of the most crucial profitability metrics since it reveals how much profit a company earned in comparison to the total amount of shareholder equity found on the balance sheet. This is a strong sign for the company that gives management more flexibility when deciding the prices charged for services rendered at their nursing homes.

Debt to Total Assets- This ratio has been increasing since 2002. It shows what percentage of the companies assets are financed by debt. The ratio increased in 2005 because there was an increase of \$175.2 million in long-term debt. This is a 32% increase from 2004's long-term debt.

Equity Multiplier- This ratio has been increasing since 2002. A company doesn't necessarily want this ratio to increase. Increases in this ratio show that the company is more leveraged. As of 2005 this ratio is 2.66 up 9.9% from 2004.

Debt to Equity- The debt to equity ratio jumped significantly in 2005 by 66.7% to 0.95 from 2004's 0.57. Generally, any company that has a debt to equity ratio of over 40 to 50% should be looked at more carefully to make sure there are no liquidity problems. This company is clearly expanding and looking to grow their business by way of debt. Leverage is an extremely powerful tool mainly because the cost of capital is cheaper than stock, but management must be cautious when making decisions about how much debt the company can handle at any given time.

DuPont Breakdown of ROE- The DuPont Breakdown of Return on Equity is a great indicator of profitability and growth potential as it shows how returns are generated. It can be seen from this analysis that the company's strong gains in return on equity year-over-year from 2002 through 2005 are largely due to substantial gains in the total asset turnover of the company during the same period. Furthermore, the equity multiplier has considerably gained every single year for the past 3 years as it has far surpassed the industry, leading to higher return on equity in effect as well.

Relative Valuation

Manor Care (HCR)

I. Prices*

							3 months	Est.	Est.
Manor Care	2000	2001	2002	2003	2004	2005	2006	2006	2007
High	\$19.81	\$34.50	\$25.52	\$34.41	\$35.79	\$40.16	\$44.76	\$47.53	\$52.28
Low	\$6.39	\$17.25	\$17.25	\$16.85	\$28.78	\$30.69	\$38.94	\$44.00	\$48.00
Average	\$13.10	\$25.88	\$21.39	\$25.63	\$32.29	\$35.43	\$41.85	\$45.77	\$50.14

							3 months	Est.	Est.
S&P 500	2000	2001	2002	2003	2004	2005	2006	2006	2007
High	1552.00	1376.00	1176.00	1112.00	1217.00	1245.00	1311.56	1450.00	1595.00
Low	1254.00	944.00	768.00	788.00	1060.00	1136.00	1254.78	1290.00	1400.00
Average	1403.00	1160.00	972.00	950.00	1138.50	1190.50	1283.17	1370.00	1497.50

*The price of Manor Care, ticker symbol HCR, has increased dramatically since 2000. It currently trades at \$42.72, an increase of 120% from 2000.

The price increases have been the result of increases in earnings from quarter to quarter since 2000. Also, the increased investment by mutual fund managers has given the firm a momentum boost. Their plan to repurchase \$200 Million in shares is an indication that they feel the firm is undervalued. Price estimates for Manor Care for 2006 and 2007 high prices were based on a 20% and 10% increase in share price respectively. The low prices were simply the previous years high price as a support price.

Industry Notes-

The industry that Manor Care (HCR) competes is primarily the Long-Term Care Industry and secondarily in the Health Services Industry. The companies that were chosen below to comprise the industry were based on who Manor Care directly competes with as well as how close they were to Manor Care's market cap and revenues per annum. These 8 firms are Brookdale Senior Living, Sun Healthcare Group Inc, Sunrise Senior Living, Genesis Healthcare Incorporated, Kindred Healthcare, Extendicare Incorporated, Omnicare, and Beverly Enterprises. The latter, Beverly Enterprises is not publicly traded firms and was consequently left out of this portion of the analysis. In early 2006, Beverly Enterprises merged with Pearl Senior Care, a holding of Fillmore Capital Partners.

On December 1st, 2002, Genesis Health Ventures, Inc. ("GHVI") completed the tax-free spin-off of its eldercare and rehabilitation businesses into a separate publicly traded company, Genesis HealthCare Corporation ("GHC"). Genesis Health Ventures also announced that it would change its name to NeighborCare, Inc. effective December 2, 2003. Beginning December 2, 2003, Genesis HealthCare and NeighborCare will trade as separate companies on the NASDAQ National Market System. Genesis HealthCare common stock will trade under the ticker symbol [GHC] and NeighborCare will trade under the ticker symbol [NCRX].

Despite the spin-off, Neighborcare does not trade publicly. Omnicare merged with Neighborcare, one of Manor Care's competitors for quite some time. Omnicare trades under the symbol OCR. Manor Care and Omnicare have a partnership in place.

Sun Healthcare Group has skewed much of the data as it trades lower price wise, has a small eps number, and P/E multiple.

Some of the firms in the industry have only gone public recently as is evident by the lack of information for some years.

Brookdale Senior Living (BKD)							3 months	Est.	Est.
	2000	2001	2002	2003	2004	2005	2006	2006	2007
High	N/A	N/A	N/A	N/A	N/A	\$30.61	\$39.14	\$45.01	\$49.51
Low	N/A	N/A	N/A	N/A	N/A	\$24.86	\$29.09	\$39.50	\$45.00
Average	N/A	N/A	N/A	N/A	N/A	\$27.74	\$34.12	\$42.26	\$47.26

Beverly Enterprises (pre-merger)							3 months
	2000	2001	2002	2003	2004	2005	2006
HIGH	\$8.25	\$12.10	\$9.50	\$8.60	\$9.41	N/A	N/A
LOW	\$2.50	\$5.20	\$1.60	\$1.63	\$5.83	N/A	N/A
Average	\$5.38	\$8.65	\$5.55	\$5.12	\$7.62	N/A	N/A

Sunrise Senior Living (SRZ)							3 months	Est.	Est.
	2000	2001	2002	2003	2004	2005	2006	2006	2007
High	\$14.69	\$15.65	\$15.99	\$19.95	\$23.18	\$36.53	\$39.49	\$43.44	\$45.61
Low	\$6.12	\$9.38	\$9.85	\$10.84	\$15.60	\$21.42	\$32.64	\$39.50	\$43.40
Average	\$10.41	\$12.52	\$12.92	\$15.40	\$19.39	\$28.98	\$36.07	\$41.47	\$44.51

Omnicare Incorporated (OCR)							3 months	Est.	Est.
	2000	2001	2002	2003	2004	2005	2006	2006	2007
High	\$21.60	\$25.66	\$28.06	\$41.50	\$46.89	\$61.83	\$61.81	\$64.90	\$66.52
Low	\$7.97	\$17.48	\$18.24	\$23.29	\$26.52	\$29.46	\$48.94	\$61.50	\$63.00
Average	\$14.79	\$21.57	\$23.15	\$32.40	\$36.71	\$45.65	\$55.38	\$63.20	\$64.76

Genesis Healthcare Incorporated (GHC)							3 months	Est.	Est.
	2000	2001	2002	2003	2004	2005	2006	2006	2007
High	N/A	N/A	N/A	\$24.40	\$36.70	\$47.96	\$44.85	\$47.09	\$49.45
Low	N/A	N/A	N/A	\$20.40	\$20.78	\$33.11	\$36.10	\$44.90	\$46.00
Average	N/A	N/A	N/A	\$22.40	\$28.74	\$40.54	\$40.48	\$46.00	\$47.72

Sun HealthCare Group Inc.							3 months	Est.	Est.
	2000	2001	2002	2003	2004	2005	2006	2006	2007
High	N/A	N/A	\$23.50	\$9.95	\$14.26	\$9.55	\$7.85	\$8.24	\$9.07
Low	N/A	N/A	\$1.32	\$0.12	\$5.56	\$6.00	\$6.08	\$5.40	\$6.50
Average	N/A	N/A	\$12.41	\$5.04	\$9.91	\$7.78	\$6.97	\$6.82	\$7.78

Kindred Healthcare (KND)							3 months	Est.	Est.
	2000	2001	2002	2003	2004	2005	2006	2006	2007
High	N/A	N/A	\$22.99	\$26.53	\$30.56	\$41.95	\$29.32	\$32.25	\$35.48
Low	N/A	N/A	\$5.99	\$5.49	\$22.83	\$24.76	\$20.17	\$29.00	\$32.00
Average	N/A	N/A	\$14.49	\$16.01	\$26.70	\$33.36	\$24.75	\$30.63	\$33.74

Extendicare Incorporated (EXE)							3 months	Est.	Est.
	2000	2001	2002	2003	2004	2005	2006	2006	2007
High	\$2.96	\$5.11	\$3.97	\$10.18	\$14.14	\$17.84	\$21.42	\$25.70	\$28.27
Low	\$1.17	\$2.22	\$2.24	\$1.83	\$9.24	\$12.29	\$14.32	\$22.00	\$25.50
Average	\$2.07	\$3.67	\$3.11	\$6.01	\$11.69	\$15.07	\$17.87	\$23.85	\$26.89

Industry							3 months	Est.	Est.
	2000	2001	2002	2003	2004	2005	2006	2006	2007
High	\$21.60	\$34.50	\$28.06	\$41.50	\$46.89	\$63.83	\$61.81	\$64.90	\$66.52
Low	\$1.17	\$2.22	\$1.32	\$0.12	\$5.56	\$6.00	\$6.08	\$5.40	\$25.50
Average	\$11.39	\$18.36	\$14.69	\$20.81	\$26.23	\$34.92	\$33.95	\$35.15	\$46.01

*Industry prices based on a good forward looking environment for the healthcare industry due to increase medicare and medicaid grants also the increase in the number of people that will retire in the next 5+ years will put upward pressure on prices. The increases estimates were based on increases from 5-10%, while Manor Care's estimates were higher because it is the largest firm in the industry and will continue to capture market share on its competitors. The industry highs and lows were slightly skewed by Sun Healthcare Group trading very low for the entire period illustrated and Omnicare trading very high for the same period. The industry average is in-line with the other firm's prices.

ii. Earnings*	2000	2001	2002	2003	2004	2005	2006(est)	2007(est)	
Manor Care	\$0.38	\$0.66	\$1.33	\$1.30	\$1.90	\$1.89	\$2.14	\$2.43	(\$2.61)
Growth Rate	26.43%	20.82%	10.94%	11.37%	13.79%	11.36%	10.44%	7.41%	2008 est)

S&P 500	2000	2001	2002	2003	2004	2005	2006(est)	2007(est)	
Growth Rate	7.43%	14.23%	13.39%	12.08%	8.33%	5.59%	4.29%	8.33%	2008 est)

Industry	2000	2001	2002	2003	2004	2005	2006(est)	2007(est)	
Growth Rate	40.98%	24.30%	56.45%	99.28%	11.18%	19.48%	18.38%	17.02%	2008 est)

*Earnings estimates were taken from net income and shares outstanding estimates. Earnings have been increasing by a large margin every year from 2000-2002. Then this trend tapered off in 2003, where it decreased because this is the year it began paying cash dividends. The firm's earnings once again gained momentum in 2004 and in 2005 they declared that they would fall short of their earnings estimates because the occupancy in their skilled nursing facilities had dropped 1% after reaching near record levels. The estimates for 2006 and 2007 were based on 15 and 10% increases in net income respectively, followed by a decrease and then slight increase in shares outstanding due to a plan by the firm to repurchase \$200 Million in shares. Sun Healthcare Group was left out as an outlier due to its negative earnings for every period except 2005 where it was included.

iii. Calculate P/E's*

Manor Care	2000	2001	2002	2003	2004	2005	2006(est)	2007(est)
High	56.00	43.00	20.00	27.00	20.00	22.00	24.00	26.00
Low	17.00	21.00	12.00	13.00	15.00	16.00	18.00	21.00
Average	36.50	32.00	16.00	20.00	17.50	19.00	21.00	23.50

S&P 500	2000	2001	2002	2003	2004	2005	2006(est)	2007(est)
High	27.65	35.42	25.54	20.33	17.98	16.08	18.00	21.00
Low	22.34	24.3	16.68	14.41	15.66	14.68	15.00	15.00
Average	25.00	29.86	21.11	17.37	16.82	15.38	16.50	18.00

Industry	2000	2001	2002	2003	2004	2005	2006(est)	2007(est)
High	43.00	33.00	22.00	22.00	24.20	30.00	26.50	29.00
Low	5.50	4.50	3.00	2.00	5.00	8.00	10.00	25.00
Average	24.25	18.75	12.50	12.00	14.60	19.00	18.25	27.00

*Historical (2000-2005) P/Es were taken from S&P Net Advantage

**Estimates were based on aging baby boomers that would contribute to earnings growth for the health care/long term care industry.

Medicare spending has rose 8 times where it was in 1995, from \$1.9 Billion to \$8.6 Billion last year. These figures are sure to rise due to the retiring baby boomers as well as their parents' necessity for long term care for subacute or terminal illnesses and rehabilitation. Also, HCR occupancy levels are at 89% which puts to rest a dip in income in the 2nd quarter of 2005, despite it was still higher than the same quarter in the previous year. J

iv. Calculate Relative P/E's*

Manor Care vs	2000	2001	2002	2003	2004	2005	2006(est)	2007(est)
High	102.53%	21.40%	-21.69%	32.81%	11.23%	36.82%	33.33%	23.81%
Low	31.41%	15.71%	39.00%	10.85%	4.40%	-8.25%	20.00%	40.00%
Average	66.97%	18.56%	8.65%	21.83%	7.82%	14.28%	26.67%	31.90%

Manor Care vs	2000	2001	2002	2003	2004	2005	2006(est)	2007(est)
High	30.23%	30.30%	-9.09%	22.73%	-17.36%	-26.67%	-9.43%	-10.34%
Low	209.09%	366.67%	300.00%	550.00%	200.00%	100.00%	80.00%	-16.00%
Average	119.66%	198.48%	28.00%	66.67%	19.86%	36.67%	35.28%	-13.17%

*Manor Care's P/E has been relatively higher than the S&P 500 and the Industry it is in. This may be due to the confidence people have in the firm.

The performance of Manor Care has been steadily increasing since 2000 which is indicative of its lower P/E. Manor Care's price since 2000 has grown approximately 120% and earnings per share has grown 300%. Manor Care is the exemplar in its industry capturing the largest amount of revenue per annum. Historically, HCR has traded to a premium to both the S&P 500 and the overall industry. This may be in large part due to their standing as the industry leader in market cap, revenue, earnings, and dividend yield.

v. Other Relative Value Measures**

Manor Care	2000	2001	2002	2003	2004	2005	2006(est)	2007(est)
P/CF	9.67	8.28	6.23	10.12	9.34	9.52	9.24	9.40
P/BV	2.09	2.32	1.74	3.15	3.10	4.05	4.62	4.88
P/S	0.89	0.90	0.61	1.02	0.92	0.95	1.16	1.27
PEG	1.38	1.53	1.46	1.76	1.27	2.00	2.48	2.99
Dividend Yield	N/A	N/A	N/A	0.75%	1.61%	1.51%	1.35%	1.30%
EV/EBITDA	12.48	12.02	8.21	12.55	10.49	11.43	11.00	10.57

*This will be followed by a chart illustrating the industry valuation as a comparison to the following statements.

**Manor Care's P/CF has been steady for the past 6 years and based on my estimates will continue that way. It's P/CF is lower than the industry average that I have calculated of 14.40 and 12.23 when removing the outliers from the equation. Lower P/CF ratios relative to the industry have outperformed historically.

The firm's P/BV of 4.05 is the highest in the industry, clearly not an indicator of whether the firm is undervalued relative to its competitors.

The P/BV isn't useful for a service-intensive firm with a lack of tangible assets like Manor Care.

The P/S ratio is on par with the industry average and is around the median in general, illustrating that it is fairly generating profit.

The firm's PEG has been historically hovering around 1 but estimates based on forward growth the firm will have a PEG of around 2.

The Dividend Yield for Manor Care is in line with the industry and is relatively higher than 2 out of the 3 competitors which pay a dividend.

Finally, the EV/EBITDA is relatively low compared to some of its competitors. Also, many of the firms with low multiples may be good targets for takeover activity.

***Based on the relative factors and all the above relative valuation measure from parts 1-5, our recommendation is that Manor Care is undervalued and should be purchased.

DDM/DCF Worksheet						
I. Estimate Company:						
Dividends, EPS and Payout						
	YEAR	Annual Dividends*	EPS*	Payout	Dividend estimates	
Year 1	2000	\$0.00	\$0.38	0.00%	2006	\$0.16
Year 2	2001	\$0.00	\$0.66	0.00%	2007	\$0.17
Year 3	2002	\$0.00	\$1.33	0.00%	2008	\$0.20
Year 4	2003	\$0.25	\$1.30	19.23%	2009	\$0.24
Year 5	2004	\$0.56	\$1.90	29.47%	2010	\$0.27
Year 6	2005	\$0.60	\$1.89	31.75%		
est.	2006	\$0.64	\$2.14	29.91%		
est.	2007	\$0.68	\$2.43	29.44%		
est.	2008	\$0.80	\$2.61	32.26%		
est.	2009	\$0.96	\$2.88	35.16%		
est.	2010	\$1.08	\$3.07	35.18%		
				average payout =	30.30%	
Manor Care statement from 2005 10K						
"We intend to declare and pay regular quarterly cash dividends; there can						
be no assurance that any dividend will be declared, paid or increased in the future."						
*Based on this statement I estimated average incremental increases of the dividend.						
These estimates were conservative at best and the firm would most likely increase						
their payment by a larger margin if at all. The dividend estimates in the furthest column were						
based on past dividends paid and then annualized to derive the 2006-2010 estimates.						
2000-2005 EPS was reported and taken from the respective 10K's						
II. Estimate Terminal Price						
A. Using Gordon Growth Model						
Dividend in last year of estimates =				\$1.08		
$k = R_f + \beta (R_m - R_f)$						
$k = 0.05095 + 0.63 (0.11 - 0.05095)$						
$k = 8.815\%$						
g = estimate of future constant growth rate						
g =				12%		
TP= D/k-g						

Terminal Price = N/A G > k so can't use GGM							
*Based on the Gordon Growth Model, the stock is significantly overvalued. Due to the fact that this firm wouldn't be considered a stable growth firm we believe this valuation measure is inept and should be disregarded.							
B. Using P/E Ratios to get Target Price							
	2000	2001	2002	2003	2004	2005	2006E
P/E High	56.00	43.00	20.00	27.00	20.00	22.00	24.00
P/E Low	17.00	21.00	12.00	13.00	15.00	16.00	20.00
P/E Avg.	36.50	32.00	16.00	20.00	17.50	19.00	22.00
Assume stock trades at a P/E of <u>22.67</u> at end of estimated dividend period(2010) based on HCR trading at \$69.58 and an EPS in that year of \$3.07.							
Rationale:		2006	2007	2008	2009	2010	
	price est	\$47.53	\$52.28	\$57.51	\$63.26	\$69.58	
	eps est	\$2.14	\$2.43	\$2.61	\$2.88	\$3.07	
	P/E	22.21	21.54	22.03	21.96	22.67	
Earnings Estimate for 2010= <u>\$3.07</u> per share							
Est. Stock price(2010) = \$3.07 x 22.67 = \$69.58 (target price)							
*Based on this model we projected using forward prices and forward earnings figures that HCR would trade at a P/E of 22.67 and an earnings per share of \$3.07 ,that in 2010 the stock would trade at \$69.58. The stock is currently trading at \$42.74, therefore it is undervalued based on the forward estimates.							
III. Estimate Required Rate of Return (Discount Rate)							
CAPM=							
Risk-free rate=		5.095%	(30 year Bond As of April 7th 2006, based on long term horizon)				
Expected return on Equity Market =		11%	(Average of the 10-12% historical return on the market)				
Beta of stock =		0.63	(Calculated Beta)				
$E(RM) = R_f + \beta (R_m - R_f)$							
	(Rm-Rf)=	0.05905					
	* β =	0.037202					
	Rf+	8.815%					
Required Rate of Return= 8.815%							
*For the CAPM model in order to calculate the required rate of return (discount rate), I utilized a risk free rate of 5.095%							

taken from the 30 year bond as of April 21st, 2006. The beta of 0.63 was calculated and the return on the market was derived by taking the average of historical market returns of 10-12% which is 11%. Based on the model the RRR, for the stock would be 8.815%

IV. Use Discount Model - calculate present value of cash flows

		cash flow	present value
est.	2006	\$0.64	\$0.59
est.	2007	\$0.68	\$0.57
est.	2008	\$0.80	\$0.61
est.	2009	\$0.96	\$0.67
est.	2010	\$1.08	\$0.69
sum of present values=			\$3.13
2010 Stock Price=		\$65.98	\$43.25
Tot Present Value=			\$46.37
Current Price of Stock=			\$42.72

*The discount model illustrates a total present value of \$46.37. The stock currently trades at \$42.72, therefore once again the stock is undervalued. Based on all the models besides the constant growth model the stock is undervalued and should be purchased.

Industry Valuation- As of April 7th, 2006

Company	Ticker	Stock Price	Market Cap	Revenue	EPS	P/E	P/S	P/BV	P/CF	Div. Yield	EV/EBITDA
Manor Care Incorporated	HCR	\$42.72	\$3.38 B	\$3.41B	\$1.89	22.67	0.95	4.05	9.52	1.51%	11.43
Brookdale Senior Living	BKD	\$37.86	\$2.45B	\$790M	(\$0.41)	68.11	2.45	3.90	49.80	3.60%	126.15
Sunrise Senior Living	SRZ	\$36.80	\$1.85B	\$1.82B	\$1.67	27.58	1.08	3.42	13.30	N/A	9.90
Sun Healthcare Group Incorporated	SUNH	\$7.79	\$243M	\$882M	\$0.18	13.53	0.27	N/A	21.60	N/A	17.16
Omnicare (Neighborcare)*	OCR	\$53.70	\$6.49B	\$5.29B	\$0.80	14.02	1.23	2.20	21.10	0.10%	14.91
Beverly Enterprises**	N/A	N/A	\$1.98B	\$2.14B	N/A	12.50	0.30	2.60	1.30	N/A	N/A
Genesis Healthcare Incorporated	GHCI	\$42.93	\$830M	\$1.70B	\$2.17	18.90	0.49	1.26	7.10	N/A	6.85
Extendicare Incorporated	EXE	\$21.37	\$1.45B	\$1.69B	\$1.20	22.95	0.86	3.55	8.90	0.20%	8.97
Kindred Healthcare Incorporated	KND	\$23.71	\$886M	\$3.92B	\$2.84	11.99	0.30	1.29	4.10	N/A	1.92
Mean		\$33.36	\$2.17B	\$2.40B	\$1.29	23.87	0.88	2.78	14.40	1.35%	24.66
Median		\$36.80	\$1.65B	\$1.76B	\$1.20	17.65	0.68	2.60	11.10	0.20%	9.90

Source: Morningstar

*Neighborcare has merged with Omnicare in 2005

** Beverly Enterprises merged with Pearl Senior Care in 2006

***P/Es are forward estimates

Beta Calculation

Date	Close	Monthly Return: HCR	Date	Close	Monthly Return: S&P 500
6-Apr-06	43.38	-2.19%	3-Apr-06	1309.04	1.09%
1-Mar-06	44.35	7.26%	1-Mar-06	1294.87	1.11%
1-Feb-06	41.35	6.16%	1-Feb-06	1280.66	0.05%
3-Jan-06	39.1	-1.68%	3-Jan-06	1280.08	2.55%
1-Dec-05	39.77	0.86%	1-Dec-05	1248.29	-0.10%
1-Nov-05	39.43	6.26%	1-Nov-05	1249.48	3.52%
3-Oct-05	37.25	-3.02%	3-Oct-05	1207.01	-1.77%
1-Sep-05	38.41	-2.69%	1-Sep-05	1228.81	0.69%
1-Aug-05	39.47	4.37%	1-Aug-05	1220.33	-1.12%
1-Jul-05	37.96	-4.46%	1-Jul-05	1234.18	3.60%
1-Jun-05	39.73	2.24%	1-Jun-05	1191.33	-0.01%
2-May-05	38.86	16.97%	2-May-05	1191.5	3.00%
1-Apr-05	33.35	-8.28%	1-Apr-05	1156.85	-2.01%
1-Mar-05	36.36	6.72%	1-Mar-05	1180.59	-1.91%
1-Feb-05	34.07	-0.96%	1-Feb-05	1203.6	1.89%
3-Jan-05	34.55	-2.48%	3-Jan-05	1181.27	-2.53%
1-Dec-04	35.43	2.84%	1-Dec-04	1211.92	3.25%
1-Nov-04	34.45	5.65%	1-Nov-04	1173.82	3.86%
1-Oct-04	32.74	9.28%	1-Oct-04	1130.2	1.40%
1-Sep-04	29.96	-2.31%	1-Sep-04	1114.58	0.94%
2-Aug-04	30.67	-1.41%	2-Aug-04	1104.24	0.23%
1-Jul-04	31.25	-4.38%	1-Jul-04	1101.72	-3.43%
1-Jun-04	32.68	4.31%	1-Jun-04	1140.84	1.80%
3-May-04	31.33	-2.99%	3-May-04	1120.68	1.21%
1-Apr-04	32.44	-8.08%	1-Apr-04	1107.3	-1.68%
1-Mar-04	35.29	-0.34%	1-Mar-04	1126.21	-1.64%
2-Feb-04	35.41	-0.42%	2-Feb-04	1144.94	1.22%
2-Jan-04	35.7	3.27%	2-Jan-04	1131.13	1.73%
1-Dec-03	34.57	-2.12%	1-Dec-03	1111.92	5.08%
3-Nov-03	35.32	6.51%	3-Nov-03	1058.2	0.71%
1-Oct-03	33.28	10.93%	1-Oct-03	1050.71	5.50%
2-Sep-03	30	8.70%	2-Sep-03	995.97	-1.19%
1-Aug-03	27.6	-2.72%	1-Aug-03	1008.01	1.79%
1-Jul-03	28.5	13.95%	1-Jul-03	990.31	1.62%
2-Jun-03	25.01	5.57%	2-Jun-03	974.5	1.13%
1-May-03	23.69	21.80%	1-May-03	963.59	5.09%
1-Apr-03	19.45	1.14%	1-Apr-03	916.92	8.10%
3-Mar-03	19.23	4.91%	3-Mar-03	848.18	0.84%
3-Feb-03	18.33	-4.63%	3-Feb-03	841.15	-1.70%
2-Jan-03	19.22	3.28%	2-Jan-03	855.7	-2.74%
2-Dec-02	18.61	-4.47%	2-Dec-02	879.82	-6.03%
1-Nov-02	19.48	-1.47%	1-Nov-02	936.31	5.71%
1-Oct-02	19.77	-12.06%	1-Oct-02	885.76	8.64%
3-Sep-02	22.48	-4.10%	3-Sep-02	815.28	-11.00%
1-Aug-02	23.44	6.59%	1-Aug-02	916.07	0.49%
1-Jul-02	21.99	-4.39%	1-Jul-02	911.62	-7.90%
3-Jun-02	23	-11.20%	3-Jun-02	989.82	-7.25%
1-May-02	25.9	1.01%	1-May-02	1067.14	-0.91%
1-Apr-02	25.64	10.04%	1-Apr-02	1076.92	-6.14%
1-Mar-02	23.3	24.27%	1-Mar-02	1147.39	3.67%
4-Feb-02	18.75	-5.78%	1-Feb-02	1106.73	-2.08%
2-Jan-02	19.9	-16.07%	2-Jan-02	1130.2	-1.56%

Beta using slope function

0.63

Risk Factors

Manor Care (HCR) operates in the Health Care Services Industry. There are many risks associated with the healthcare sector. Due to over crowding in many facilities as well as doctor malpractices, litigation costs can increase drastically. Costs will also increase due to the nursing profession being out of favor. The industry is also struggling with the issue of Medicare and Medicaid reimbursements. The main risk factor that Manor Care can face is the amount it gets reimbursed for Medicare and Medicaid patients.

Healthcare costs for patients are skyrocketing and companies such as Manor Care get reimbursed by healthcare providers such as Medicare and Medicaid. The Government controls the amount of reimbursements given out and these reimbursements are already at record lows. Over 60% of the patients that Manor Care deals with rely on one of these two sources of healthcare.

As the population ages more and more people enter into assisted living facilities. This could lead to overcrowding in many of the facilities and poor quality service to the patients as well as many employees working overtime. As a result of this patient litigation as well as employee compensation liabilities could increase drastically. There is also a risk of patient litigation due to doctor malpractice.

There is an increase in short-term patients. Meaning that these patients are day to day and reimbursements to the company are made day to day. This makes the company more volatile and as a result could have an impact on revenues if at times there are fewer patients then at other times.

The healthcare industry is suffering from an overwhelming shortage of nurses. If more nurses do not enter into the work force companies such as manor care will have to pay fewer employees to work more, leading to more costs for the company.

The healthcare industry has relatively low barriers for entry, meaning that already established companies give little resistance to new companies that are growing within the industry. As a result a new company could come about and gain a large amount of the regional market. Therefore taking customers away from manor care and affecting its profits.

Manor Care has been close to experiencing some short-term liquidity problems in the past and is close to it now. In 2002 its current ratio was .80 and it improved a little but as of 2005 the ratio is at 1.17. Manor Care is not in a bad position yet but if the ratio were to go below 1 this should cause some concern. The receivables turnover ratio has been operating in the 7.40-7.55 range this is well below the industry average of 9.7. This is a cause for concern because it shows that Manor Care is having difficulty collecting its receivables and possibly hindering their ability to pay other liabilities. In terms of their operating margin the company is well below the industry average and if this ratio is to stay at or near 17.5% the company could have problems down the road. In order to fix this the company has to cut costs and become more efficient.

The healthcare industry is exposed to many risks. Many of these risks are hard or impossible for a company to overcome. One of the only ways for a company to survive in the future in this industry is by becoming large and extremely cost efficient.

Investment Drivers

Manor Care (HCR) is a leading provider of long-term skilled nursing care, rehabilitation and short-term post-acute medical care. The medical services that they offer are provided by registered nurses, licensed practical nurses and certified nursing assistants.

The United States is at a point in time where the majority of the population is over age 65 or going to be over 65 in the near future. Due to this there will be an increase of people that are in need of services and this increase will continue for a number of years to come. The health care industry will be in great demand to help these elderly people get on with their daily lives and manor care will be a company that many will go to.

HCR is a diversified firm that not only concentrates on assisted living but it has facilities that specialize in attending to patients with Alzheimer's and dementia as well. HCR also has an outpatient therapy clinic. This clinic provides services such as sports rehabilitation, pediatrics, orthopedic therapy, as well as other services for patients of all ages.

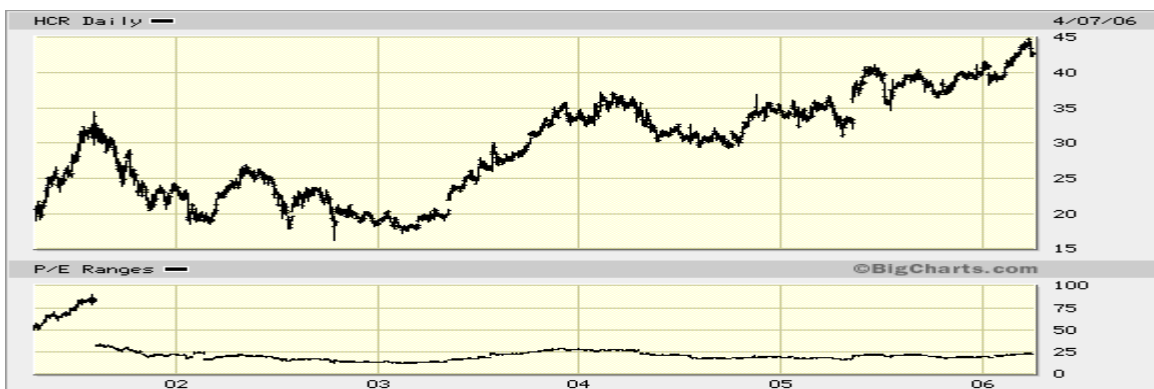
The healthcare industry is going to improve with the aging of the population. More people are going to need the services that are provided by HCR. Also HCR has been effectively cutting costs and improving its profit margin from year to year. This is very important because competitor's profit margins are being squeezed by high supplies and employment costs. Health savings accounts are growing in popularity. They are accounts that allow people to save money, tax-free, in order to cover their health costs. This will help cover costs for many people that are uninsured therefore increasing revenues and decreasing losses in accounts receivables for HCR.

The outlook into the future looks great for the healthcare industry, mainly because baby boomers are so large in number and reaching that age where services that are provided by HCR are needed. The number of people that need these services should increase for the next couple of years and remain strong therefore providing much demand and increasing revenues for HCR.

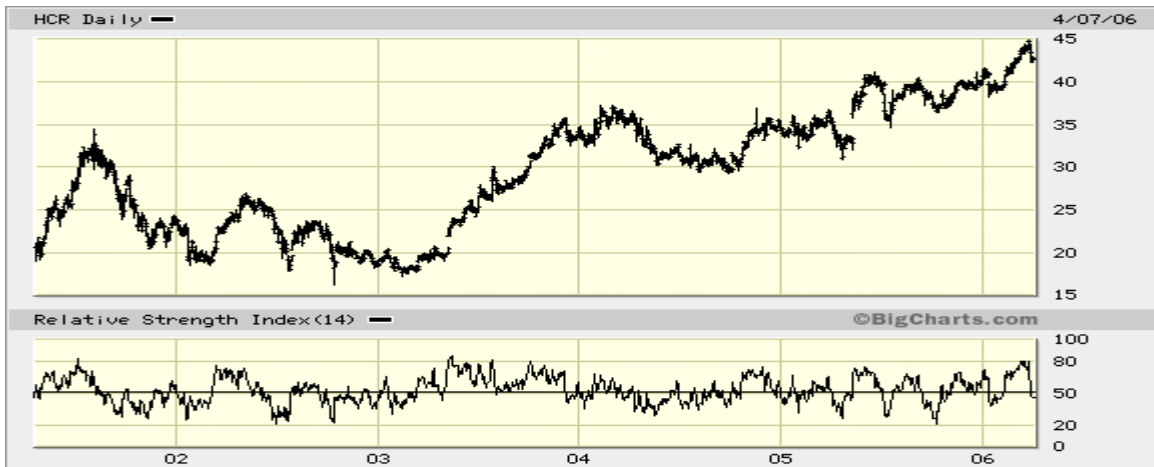
Technical Analysis



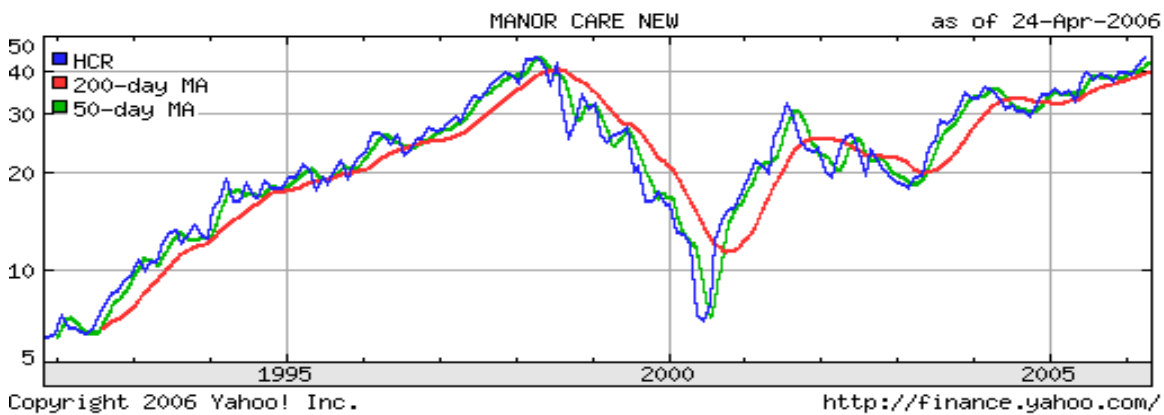
The above 1 year price chart of Manor Care (NYSE: HCR) illustrates that since May of 2005 the stock has been experiencing upward momentum. It has traded in the \$36 - 44.89 range. The support which was at around \$38 before it broke that level in February of 2006 and is currently approximately \$41.50. The resistance level, which was formerly at the current support level, is now around \$45.00. The volume for the stock is in-line with the average of around 650,000.



This chart illustrates P/Es relative to where the stock was trading. Although, the price has been going up the P/E has been steady, indicating that confidence was based on the stock itself and not the inherent P/E assigned to it.



The momentum trading tool known as the Relative Strength Index (RSI), demonstrates the average days up versus the average days down for the past 14 days in this case. Based on the RSI for Manor Care it recently reached the overbought level of 80 because we are currently in a bull market and in general the level is 70 and is now moving towards the oversold level and will most likely experience some upward momentum in the near future.



The 50 day Moving Average that is plotted across the stock price illustrates that Manor Care's stock price has recently rose above the moving average and will be experiencing some increasing stock thrust. The 200-day MA tends to be less volatile in terms of price movements because of its longer term smoothing out the sample. In general, when a stock trades higher than its 200-day MA it is considered to be experiencing upward momentum. That is the case with the 200-day MA of HCR.

From a technical standpoint the stock will be experiencing good forward momentum in the near future.

Recommendation

Since its inception in September 1998, Manor Care has been providing a range of health care services, including skilled nursing care, assisted living, sub-acute medical and rehabilitation care, rehabilitation therapy, home health care, hospice care, and management services for sub-acute care and rehabilitation therapy.

In analyzing Manor Care (HCR) it can be seen that this is a sound financial institution operating in an industry that is going to experience increased demand with the coming of years. According to our chart in the industry analysis section of this report it can be seen that including 2006 that the industry is predicted to have double digit growth year after year up until the chart ends in 2009. The United States is at a point in time where the majority of the population is over age 65 or going to be over 65 in the near future. Due to this there will be an increase of people that are in need of services and this increase will continue for a number of years to come.

In terms of technical analysis the stock is experiencing upward momentum trading above its 50 day and 200 day moving average.

Also we feel that since the company is one of the largest in the industry that it will be able to accommodate the increasing amount of patients that will be in need of services for the future to come. Also Manor Care has done a great job at cutting its costs and becoming more efficient over the past years. This is a start to dealing with some of the risks that face Manor Care and in particular the industry as a whole. The companies that can cut costs and run efficiently are going to be the ones that make it in the Health Care Services industry.

As a result we recommend **buying** 500 shares of Manor Care at the market price of \$42.72 for a total of \$21,360.

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