Aveanna Healthcare Holdings Announces First-Quarter 2022 Financial Results

May 11, 2022

- ***Revenue increased 8.0% to $450.5 million, compared to Q1 2021***
- ***Acquisitions of Comfort Care (HHH) and Accredited (PDS) drove revenue growth***
- ***Gross margin increased 10.0% to $144.8 million, compared to Q1 2021***
- ***Net income was $25.3 million, primarily attributable to a $38.3 million non-cash gain on interest rate hedges***
- ***Adjusted EBITDA decreased 13.2% to $38.0 million, compared to Q1 2021***

ATLANTA, May 11, 2022 (GLOBE NEWSWIRE) -- Aveanna Healthcare Holdings, Inc. (NASDAQ: AVAH), a leading, diversified home care platform focused on providing care to medically complex, high-cost patient populations, today announced financial results for the three month period ended April 2, 2022.

Tony Strange, Chief Executive Officer, commented “Despite the significant pressure on labor supply and operating challenges created by the Omicron variant of COVID-19 in the first quarter of 2022, our caregivers and support staff continued to work tirelessly to deliver on our important mission of providing care for our patients and families. Although we continue to face near-term caregiver supply constraints like many other healthcare providers, we have moved past the near-term impact from Omicron and importantly the demand for our services has never been higher and we remain optimistic about Aveanna's long-term prospects. While we have benefitted from recent reimbursement rate increases in many states, we continue to engage in dialogue with our payors on the value and critical nature of our services, with the ultimate goal of bringing more caregivers back to work. We are working diligently to solve for the recent macro pressures, but despite these challenges we are confident that the Aveanna platform and infrastructure is primed for growth.

We also continue to focus on the integration of our Accredited Nursing Services ("Accredited") and Comfort Care Home Health Services acquisitions, which we completed in the fourth fiscal quarter of 2021, in addition to identifying new acquisition opportunities with the appropriate multiples."

Three-Month Periods Ended April 2, 2022 and April 3, 2021

Revenue was $450.5 million for the three-month period ended April 2, 2022, as compared to $417.2 million for the three month period ended April 3, 2021, an increase of $33.4 million, or 8.0% The overall increase in revenue was primarily attributable to a $35.1 million increase in Home Health & Hospice (“HHH”) segment revenue. Private Duty Services ("PDS") segment revenue was flat compared with the prior year quarter. While the acquisition of Accredited in the fourth quarter of 2021 contributed incremental PDS revenue in the first quarter of 2022, the Omicron variant pressured our PDS clinical workforce in the first quarter, constraining caregiver recruitment and retention efforts and negatively impacting PDS patient volumes.

Gross margin was $144.8 million, or 32.1% of revenue, for the three months ended April 2, 2022, as compared to $131.7 million, or 31.6% of revenue, for the three months ended April 3, 2021, an increase of $13.1 million, or 10.0%.

Operating income decreased $14.5 million, or 51.3%, to $13.8 million for the first quarter of 2022, as compared to $28.3 million for the first quarter of 2021. While operating income benefited from a $13.1 million increase in gross margin, the overall decrease resulted from a $6.2 million reduction in field contribution and a $9.2 million increase in corporate expenses, net of a $1.7 million reduction in acquisition-related costs.

Net income was $25.3 million for the first quarter of 2022, as compared to $5.8 million for the first quarter of 2021. Net income includes a $38.3 million

non-cash gain, recorded in other income, related to a material increase in valuation of our interest rate swap and cap during the first quarter of 2022. Net income per diluted share was $0.14 for the first quarter of 2022, as compared to a net income per diluted share of $0.04 for the first quarter of 2021. Adjusted net income per diluted share was $0.04 for the first quarter of 2022, as compared to $0.08 for the first quarter of 2021.

Adjusted EBITDA was $38.0 million, or 8.4% of revenue, for the first quarter of 2022, as compared to $43.7 million, or 10.5% of revenue, for the first quarter of 2021. Adjusted EBITDA benefitted from $3.1 million of American Rescue Plan Act Recovery Funds received during the first quarter of 2022.

Cash Flow, Liquidity and Debt

- Net cash used by operating activities in the first quarter of 2022 decreased to $9.5 million as compared to net cash used of $32.9 million for the first quarter of 2021.
- As of April 2, 2022, we had cash of $17.4 million with the following liquidity available under our credit facilities:
    - $182.4 million of available borrowing capacity under our revolving credit facility,
    - $10.0 million of availability under our securitization facility, and
    - $200.0 million of availability under our delayed draw term loan facility for future acquisitions.
- As of April 2, 2022 we had bank debt of $1.4 billion. Our interest rate exposure under our credit facilities is hedged with the following instruments:
    - $520.0 million notional amount of interest rate swaps that convert variable rate debt to a fixed rate, and
    - $880.0 million notional amount of interest rate caps that cap our exposure to LIBOR at 3.0%.

David Afshar, Chief Financial Officer, commented "As we navigate our way through the challenging macro trends and interest rate environment that our industry faces today, we have taken proactive steps to mitigate our exposure to these pressures by implementing interest rate hedges that reduce our exposure to rising rates and we continued to benefit from a strong liquidity position to support our strategic initiatives."

Non-GAAP Financial Measures

In addition to our results of operations prepared in accordance with U.S. generally accepted accounting principles (“GAAP”), we also evaluate our financial performance using EBITDA, Adjusted EBITDA, Field contribution, Field contribution margin, Adjusted corporate expense, Adjusted net income and Adjusted net income per diluted share. Given our determination of adjustments in arriving at our computations, these non-GAAP measures have limitations as analytical tools and should not be considered in isolation or as substitutes or alternatives to net income or loss, revenue, operating income or loss, cash flows from operating activities, total indebtedness or any other financial measures calculated in accordance with GAAP.

EBITDA and Adjusted EBITDA

EBITDA and Adjusted EBITDA are non-GAAP financial measures and are not intended to replace financial performance measures determined in accordance with U.S. GAAP, such as net income (loss). Rather, we present EBITDA and Adjusted EBITDA as supplemental measures of our performance. We define EBITDA as net income (loss) before interest expense, net; income tax (expense) benefit; and depreciation and amortization. We define Adjusted EBITDA as EBITDA, adjusted for the impact of certain other items that are either non-recurring, infrequent, non-cash, unusual, or items deemed by management to not be indicative of the performance of our core operations, including impairments of goodwill, intangible assets, and other long-lived assets; non-cash, share-based compensation; sponsor fees; loss on extinguishment of debt; fees related to debt modifications; the effect of interest rate derivatives; acquisition-related and integration costs; legal costs and settlements associated with acquisition matters; COVID-19 related costs; and other system transition costs, professional fees and other costs. As non-GAAP financial measures, our computations of EBITDA and Adjusted EBITDA may vary from similarly termed non-GAAP financial measures used by other companies, making comparisons with other companies on the basis of this measure impracticable.

We believe our computations of EBITDA and Adjusted EBITDA are helpful in highlighting trends in our core operating performance. In determining which adjustments are made to arrive at EBITDA and Adjusted EBITDA, we consider both (1) certain non-recurring, infrequent, non-cash or unusual items, which can vary significantly from year to year, as well as (2) certain other items that may be recurring, frequent, or settled in cash but which we do not believe are indicative of our core operating performance. We use EBITDA and Adjusted EBITDA to assess operating performance and make business decisions.

We have incurred substantial acquisition-related costs and integration costs in fiscal years 2022, 2021 and 2020. The underlying acquisition activities take place over a defined timeframe, have distinct project timelines and are incremental to activities and costs that arise in the ordinary course of our business. Therefore, we believe it is important to exclude these costs from our Adjusted EBITDA because it provides us a normalized view of our core, ongoing operations after integrating our acquired companies, which we believe is an important measure in assessing our performance.

Field contribution and Field contribution margin

Field contribution and Field contribution margin are non-GAAP financial measures and are not intended to replace financial performance measures determined in accordance with GAAP, such as operating income (loss). Rather, we present Field contribution and Field contribution margin as supplemental measures of our performance. We define Field contribution as operating income (loss) prior to corporate expenses and other non-field related costs, including depreciation and amortization, acquisition-related costs, and other operating expenses. Field contribution margin is Field contribution as a percentage of revenue. As non-GAAP financial measures, our computations of Field contribution and Field contribution margin may vary from similarly termed non-GAAP financial measures used by other companies, making comparisons with other companies on the basis of these measures impracticable.

We believe Field contribution and Field contribution margin are helpful in highlighting trends in our core operating performance and evaluating trends in our branch and regional results, which can vary from year to year. We use Field contribution and Field contribution margin to make business decisions and assess the operating performance and results delivered by our core field operations, prior to corporate and other costs not directly related to our field operations. These metrics are also important because they guide us in determining whether our branch and regional administrative expenses are appropriately sized to support our caregivers and direct patient care operations. Additionally, Field contribution and Field contribution margin determine how effective we are in managing our field supervisory and administrative costs associated with supporting our provision of services

and sale of products.

Adjusted corporate expenses

Adjusted corporate expenses is a non-GAAP financial measure and is not intended to replace financial performance measures determined in accordance with GAAP, such as corporate expenses. Rather, we present adjusted corporate expenses as a supplemental measure of our performance. We define Adjusted corporate expenses as corporate expenses adjusted for the impact of certain other items that are either non-recurring, infrequent, non-cash, unusual, or items deemed by us to not be indicative of the performance of our core operations, including non-cash, share-based compensation; sponsor fees; acquisition-related and integration costs; legal costs and settlements associated with acquisition matters; COVID related costs, net of reimbursement; and other system transition costs, professional fees and other costs. As non-GAAP financial measures, our computations of adjusted corporate expenses may vary from similarly termed non-GAAP financial measures used by other companies, making comparisons with other companies on the basis of this measure impracticable.

We believe Adjusted corporate expenses is helpful in highlighting trends in our corporate support function, which can vary from year to year. We use Adjusted corporate expenses to make business decisions in determining whether or not our corporate expenses is appropriately sized to support our caregivers and direct patient care operations. Excluding the aforementioned items from corporate expenses that are either non-recurring, infrequent, non-cash, unusual, or items deemed by us to not be indicative of the performance of our core operations allows us to evaluate adjusted corporate expenses in relation to the support necessary for our caregivers and direct patient care operations.

Adjusted net income and Adjusted net income per diluted share

Adjusted net income represents net income (loss) as adjusted for the impact of GAAP income tax, goodwill, intangible and other long-lived asset impairment charges, non-cash share-based compensation expense, sponsor fees, loss on extinguishment of debt, interest rate derivatives, acquisition-related costs, integration costs, legal costs, COVID-related costs net of reimbursement, ABA exited operations, other system transition costs, professional fees and certain other miscellaneous items on a pre-tax basis. Adjusted net income includes a provision for income taxes derived utilizing a combined statutory tax rate. The combined statutory tax rate is our estimate of our long-term tax rate. The most comparable GAAP measure is net income (loss).

Adjusted net income per diluted share represents adjusted net income on a per diluted share basis using the weighted-average number of diluted shares outstanding for the period. The most comparable GAAP measure is net income (loss) per share, diluted.

Adjusted net income and Adjusted net income per diluted share are important to us because they allow us to assess financial results, exclusive of the items mentioned above that are not operational in nature or comparable to those of our competitors.

Conference Call

Aveanna will host a conference call on Thursday, May 12, 2022, at 10:00 a.m. Eastern Time to discuss our first quarter 2022 results. The conference call can be accessed live over the phone by dialing 1-877-407-0789, or for international callers, 1-201-689-8562. A telephonic replay of the conference call will be available until May 19, 2022, by dialing 1-844-512-2921, or for international callers, 1-412-317-6671. The passcode for the replay is 13728903. A live webcast of our conference call will also be available under the Investor Relations section of our website: https://ir.aveanna.com/. The online replay will also be available for one week following the call.

Forward-Looking Statements

Certain matters discussed in this press release constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements (other than statements of historical facts) in this press release regarding our prospects, plans, financial position, business strategy and expected financial and operational results may constitute forward-looking statements. Forward-looking statements generally can be identified by the use of terminology such as "believe," "expect," "anticipate," "intend," "plan," "estimate," "seek," "will," "may," "should," "predict," "project," "potential," "continue" or the negatives of these terms or variations of them or similar expressions. These statements are based on certain assumptions that we have made in light of our experience in the industry as well as our perceptions of historical trends, current conditions, expected future developments and other factors we believe are appropriate in these circumstances. These forward-looking statements are based on our current expectations and beliefs concerning future developments and their potential effect on us. Forward-looking statements involve a number of risks and uncertainties that may cause actual results to differ materially from those expressed or implied by such forward-looking statements, such as our ability to successfully execute our growth strategy, including through organic growth and the completion of acquisitions, effective integration of the companies we acquire, unexpected costs of acquisitions and dispositions, the possibility that expected cost synergies may not materialize as expected, the failure of Aveanna or the companies we acquire to perform as expected, estimation inaccuracies in revenue recognition, our ability to drive margin leverage through lower costs, unexpected increases in SG&A and other expenses, changes in reimbursement, changes in government regulations, changes in Aveanna's relationships with referral sources, increased competition for Aveanna's services or wage inflation, changes in the interpretation of government regulations or discretionary determinations made by government officials, uncertainties regarding the outcome of rate discussions with managed care organizations and our ability to effectively collect our cash from these organizations, our ability to effectively collect and submit data required under Electronic Visit Verification regulations, our ability to comply with the terms and conditions of the CMS Review Choice Demonstration program, our ability to effectively implement and transition to new electronic medical record systems or billing and collection systems, changes in tax rates, the impact of adverse weather, the impact to our business operations, reimbursements and patient population were the COVID-19 environment to worsen, and other risks set forth under the heading "Risk Factors" in Aveanna's Annual Report on Form 10-K for its 2021 fiscal year filed with the Securities and Exchange Commission on March 28, 2022, which is available at www.sec.gov. In addition, these forward-looking statements necessarily depend upon assumptions, estimates and dates that may prove to be incorrect or imprecise. Accordingly, forward-looking statements included in this press release do not purport to be predictions of future events or circumstances, and actual results may differ materially from those expressed by forward-looking statements. All forward-looking statements speak only as of the date made, and Aveanna undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

About Aveanna Healthcare

Aveanna Healthcare is headquartered in Atlanta, Georgia and has locations in 33 states providing a broad range of pediatric and adult healthcare services including nursing, rehabilitation services, occupational nursing in schools, therapy services, day treatment centers for medically fragile and chronically ill children and adults, home health and hospice services, as well as delivery of enteral nutrition and other products to patients. The Company also provides case management services in order to assist families and patients by coordinating the provision of services between insurers

or other payers, physicians, hospitals, and other healthcare providers. In addition, the Company provides respite healthcare services, which are temporary care provider services provided in relief of the patient's normal caregiver. The Company's services are designed to provide a high quality, lower cost alternative to prolonged hospitalization. For more information, please visit www.aveanna.com.

Cash Flow and Information about Indebtedness

The following table sets forth a summary of our cash flows from operating, investing, and financing activities for the three month periods presented:

	For the three-month periods ended	
(dollars in thousands)	**April 2, 2022**	**April 3, 2021**
Net cash used in operating activities	$ (9,476)	$ (32,911)
Net cash used in investing activities	$ (16,643)	$ (3,165)
Net cash provided by (used in) financing activities	$ 13,068	$ (34,164)
Cash and cash equivalents at beginning of period	$ 30,490	$ 137,345
Cash and cash equivalents at end of period	$ 17,439	$ 67,105

The following table presents our long-term indebtedness as of April 2, 2022:

(dollars in thousands)

Instrument	**Interest Rate**	**April 2, 2022**
2021 Extended Term Loan	L + 3.75%	$ 855,700
Term Loan - Second Lien Term Loan	L + 7.00%	415,000
Revolving Credit Facility	L + 3.75%	-
Securitization Facility	BSBY + 2.00%	140,000
Total indebtedness		$ 1,410,700

L = Greater of 0.50% or one-month LIBOR

Results of Operations

Three-Month Period Ended April 2, 2022 Compared to the Three-Month Period Ended April 3, 2021

The following table summarizes our consolidated results of operations for the periods indicated (amounts in thousands, except per share data):

	For the three-month periods ended	
	April 2, 2022	**April 3, 2021**
Revenue	$ 450,534	$ 417,160
Cost of revenue, excluding depreciation and amortization	305,708	285,477
Branch and regional administrative expenses	88,743	69,372
Corporate expenses	36,567	27,399
Depreciation and amortization	5,819	4,848
Acquisition-related costs	91	1,768
Other operating income	(170)	-
Operating income	13,776	28,296
Interest income	62	77
Interest expense	(22,364)	(22,425)
Other income	36,457	159
Income before income taxes	27,931	6,107
Income tax expense	(2,597)	(309)
Net income	$ 25,334	$ 5,798
Net income per share:		
Net income per share, basic	$ 0.14	$ 0.04
Weighted average shares of common stock outstanding, basic	184,927	142,123
Net income per share, diluted	$ 0.14	$ 0.04
Weighted average shares of common stock outstanding, diluted	185,427	146,266

The following tables summarize our consolidated key performance measures, including Field contribution and Field contribution margin, which are non-GAAP measures, for the periods indicated:

	For the three-month periods ended			
(dollars in thousands)	**April 2, 2022**	**April 3, 2021**	**Change**	**% Change**
Revenue	$ 450,534	$ 417,160	$ 33,374	8.0 %
Cost of revenue, excluding depreciation and amortization	305,708	285,477	20,231	7.1 %
Gross margin	$ 144,826	$ 131,683	$ 13,143	10.0 %
Gross margin percentage	32.1 %	31.6 %		
Branch and regional administrative expenses	88,743	69,372	19,371	27.9 %

Field contribution	$ 56,083	$ 62,311	$ (6,228)	-10.0 %
Field contribution margin	12.4 %	14.9 %		
Corporate expenses	$ 36,567	$ 27,399	$ 9,168	33.5 %
As a percentage of revenue	8.1 %	6.6 %		
Operating income	$ 13,776	$ 28,296	$ (14,520)	-51.3 %
As a percentage of revenue	3.1 %	6.8 %		

The following tables summarize our key performance measures by segment for the periods indicated:

	PDS			
	For the three-month periods ended			
(dollars and hours in thousands)	**April 2, 2022**	**April 3, 2021**	**Change**	**% Change**
Revenue	$ 350,190	$ 350,827	$ (637)	-0.2 %
Cost of revenue, excluding depreciation and amortization	251,874	248,997	2,877	1.2 %
Gross margin	$ 98,316	$ 101,830	$ (3,514)	-3.5 %
Gross margin percentage	28.1 %	29.0 %		-0.9 % (4)
Hours	9,612	9,910	(298)	-3.0 %
Revenue rate	$ 36.43	$ 35.40	$ 1.03	2.8 % (1)
Cost of revenue rate	$ 26.20	$ 25.13	$ 1.07	4.2 % (2)
Spread rate	$ 10.23	$ 10.28	$ (0.05)	-0.5 % (3)

	HHH			
	For the three-month periods ended			
(dollars and admissions/episodes in thousands)	**April 2, 2022**	**April 3, 2021**	**Change**	**% Change**
Revenue	$ 66,623	$ 31,518	$ 35,105	111.4 %
Cost of revenue, excluding depreciation and amortization	34,168	17,329	16,839	97.2 %
Gross margin	$ 32,455	$ 14,189	$ 18,266	128.7 %
Gross margin percentage	48.7 %	45.0 %		3.7 % (4)
Home health total admissions(5)	14.3	5.8	8.5	146.6 %
Home health episodic admissions(6)	8.7	3.8	4.9	128.9 %
Home health total episodes(7)	13.8	5.7	8.1	142.1 %
Home health revenue per completed episode(8)	$ 2,898	$ 2,962	$ (64)	-2.2 %

	MS			
	For the three-month periods ended			
(dollars and UPS in thousands)	**April 2, 2022**	**April 3, 2021**	**Change**	**% Change**
Revenue	$ 33,721	$ 34,815	$ (1,094)	-3.1 %
Cost of revenue, excluding depreciation and amortization	19,666	19,151	515	2.7 %
Gross margin	$ 14,055	$ 15,664	$ (1,609)	-10.3 %
Gross margin percentage	41.7 %	45.0 %		-3.3 % (4)
Unique patients served (“UPS”)	78	73	5	6.8 %
Revenue rate	$ 432.32	$ 476.92	$ (44.60)	-9.9 % (1)
Cost of revenue rate	$ 252.13	$ 262.34	$ (10.21)	-4.1 % (2)
Spread rate	$ 180.19	$ 214.58	$ (34.39)	-17.1 % (3)

1) Represents the period over period change in revenue rate, plus the change in revenue rate attributable to the change in volume.
2) Represents the period over period change in cost of revenue rate, plus the change in cost of revenue rate attributable to the change in volume.
3) Represents the period over period change in spread rate, plus the change in spread rate attributable to the change in volume.
4) Represents the change in margin percentage year over year (or quarter over quarter).
5) Represents home health episodic and fee-for-service admissions.
6) Represents home health episodic admissions.
7) Represents episodic admissions and recertifications.
8) Represents Medicare revenue per completed episode.

The following table reconciles operating income to Field contribution and Field contribution margin:

	For the three-month periods ended	
(dollars in thousands)	**April 2, 2022**	**April 3, 2021**
Operating income	$ 13,776	$ 28,296
Other operating income	(170)	-
Acquisition-related costs	91	1,768
Depreciation and amortization	5,819	4,848

Corporate expenses	36,567	27,399
Field contribution	$ 56,083	$ 62,311
Revenue	$ 450,534	$ 417,160
Field contribution margin	12.4 %	14.9 %

The following table reconciles net income to EBITDA and Adjusted EBITDA:

	For the three-month periods ended	
(dollars in thousands)	**April 2, 2022**	**April 3, 2021**
Net income	$ 25,334	$ 5,798
Interest expense, net	22,302	22,348
Income tax expense	2,597	309
Depreciation and amortization	5,819	4,848
EBITDA	56,052	33,303
Goodwill, intangible and other long-lived asset impairment	(112)	(4)
Non-cash share-based compensation	4,815	712
Sponsor fees[1]	-	808
Interest rate derivatives[2]	(36,183)	(51)
Acquisition-related costs and other costs[3]	91	1,768
Integration costs[4]	6,747	3,469
Legal costs and settlements associated with acquisition matters[5]	1,039	575
COVID-related costs, net of reimbursement[6]	4,172	1,760
Other system transition costs, professional fees and other[7]	1,329	1,396
Total adjustments[8]	$ (18,102)	$ 10,433
Adjusted EBITDA	$ 37,950	$ 43,736

The following table reconciles Corporate expenses to Adjusted corporate expenses:

	For the three-month periods ended	
(dollars in thousands)	**April 2, 2022**	**April 3, 2021**
Corporate expenses	$ 36,567	$ 27,399
Non-cash share-based compensation	(4,029)	(549)
Sponsor fees[1]	-	(808)
Integration costs[4]	(6,255)	(3,760)
Legal costs and settlements associated with acquisition matters[5]	(1,040)	(575)
COVID-related costs, net of reimbursement[6]	(152)	(150)
Other system transition costs, professional fees and other[7]	(1,631)	(1,904)
Total adjustments	(13,107)	(7,746)
Adjusted corporate expenses	$ 23,460	$ 19,653
Adjusted corporate expenses as a percentage of revenue	5.2 %	4.7 %

The following table reconciles net income to Adjusted net income and presents Adjusted net income per diluted share:

	For the three-month periods ended	
(dollars in thousands, except share and per share data)	**April 2, 2022**	**April 3, 2021**
Net income	$ 25,334	$ 5,798
Income tax expense	2,597	309
Goodwill, intangible and other long-lived asset impairment	(112)	(4)
Non-cash share-based compensation	4,815	712
Sponsor fees[1]	-	808
Interest rate derivatives[2]	(36,183)	(51)
Acquisition-related costs and other costs[3]	91	1,768
Integration costs[4]	6,747	3,469
Legal costs and settlements associated with acquisition matters[5]	1,039	575
COVID-related costs, net of reimbursement[6]	4,172	1,760
Other system transition costs, professional fees and other[7]	1,329	1,396
Total adjustments	(15,505)	10,742
Adjusted pre-tax net income	9,829	16,540
Income tax provision on adjusted pre-tax income[9]	(2,457)	(4,300)
Adjusted net income	$ 7,372	$ 12,240

Weighted average shares outstanding, diluted	185,427	146,266
Adjusted net income per diluted share[10]	$ 0.04	$ 0.08

The following footnotes are applicable to tables above that reconcile (i) Net income to EBITDA and Adjusted EBITDA, (ii) Corporate expenses to Adjusted corporate expenses and (iii) Net income to Adjusted net income. The adjustments to reconcile Corporate expenses to Adjusted corporate expenses only represent the amounts that were recorded within Corporate expenses.

1) Represents management fees previously payable to our sponsors under our Management Agreement as defined in Note 12 – *Related Party Transactions* within the notes accompanying our consolidated financial statements included in this Quarterly Report on Form 10-Q. The Management Agreement terminated upon completion of our initial public offering.
2) Represents valuation adjustments and settlements associated with interest rate derivatives that are not included in interest expense, net. Such items are included in other income.
3) Represents transaction costs incurred in connection with planned, completed, or terminated acquisitions, which include investment banking fees, legal diligence and related documentation costs, and finance and accounting diligence and documentation, as presented on the Company's consolidated statements of operations.
4) Represents (i) costs associated with our Integration Management Office, which focuses solely on our integration efforts, of $1.1 million and $0.9 million for the three-month periods ended April 2, 2022 and April 3, 2021, respectively; and (ii) transitionary costs incurred to integrate acquired companies into our field and corporate operations of $5.6 million and $2.6 million for the three-month periods ended April 2, 2022 and April 3, 2021, respectively. Transitionary costs incurred to integrate acquired companies include IT consulting costs and related integration support costs; salary, severance and retention costs associated with duplicative acquired company personnel until such personnel are exited from the Company; accounting, legal and consulting costs; expenses and impairments related to the closure and consolidation of overlapping markets of acquired companies, including lease termination and relocation costs; costs associated with terminating legacy acquired company contracts and systems; and one-time costs associated with rebranding our acquired companies and locations to the Aveanna brand.
5) Represents legal and forensic costs, as well as settlements associated with resolving legal matters arising during or as a result of our acquisition-related activities. This primarily includes costs of $1.0 million and $0.6 million for the three-month periods ended April 2, 2022 and April 3, 2021, respectively, to comply with the U.S. Department of Justice, Antitrust Division's grand jury subpoena related to nurse wages and hiring activities in certain of our markets, in connection with a terminated transaction.
6) Represents costs incurred as a result of the COVID-19 environment, primarily including, but not limited to, (i) relief, vaccine, and hero pay provided to our caregivers; staffing and retention related incentives to attract and retain caregivers in the midst of the Omicron surge; and other incremental compensation costs; (ii) sick leave for our caregivers required by OSHA's Emergency Temporary Standard, costs required to comply with federal, state and local vaccination mandates and testing requirements, and worker compensation costs for mandated quarantine time; (iii) incremental PPE costs; and (iv) salary, severance and lease termination costs associated with workforce reductions necessitated by COVID-19.
7) Represents (i) costs associated with the implementation of, and transition to, new electronic medical record systems and billing and collection systems, duplicative system costs while such transformational projects are in-process, and other system transition costs of $1.6 million and $0.0 million for the three-month periods ended April 2, 2022, and April 3, 2021, respectively; (ii) professional fees associated with preparation for Sarbanes-Oxley compliance, advisory fees associated with preparation for and execution of our initial public equity offering, of $0.2 million and $2.0 million for the three-month periods ended April 2, 2022 and April 3, 2021, respectively; (iii) $(0.2) million of net gains on disposal of businesses during the three months ended April 2, 2022; and (iv) certain other costs or (income) that are either non-cash or non-core to the Company's ongoing operations of $(0.3) million and $(0.6) million for the three-month periods ended April 2, 2022 and April 3, 2021, respectively.
8) The table below reflects the increase or decrease, and aggregate impact, to the line items included on our consolidated statements of operations based upon the adjustments used in arriving at Adjusted EBITDA from EBITDA for the periods indicated:

	For the three-month periods ended	
(dollars in thousands)	**April 2, 2022**	**April 3, 2021**
Revenue	$ -	$ (15)
Cost of revenue, excluding depreciation and amortization	3,936	894
Branch and regional administrative expenses	1,390	200
Corporate expenses	13,107	7,746
Acquisition-related costs	91	1,768
Other operating expenses	(170)	-
Other income	(36,456)	(160)
Total adjustments	$ (18,102)	$ 10,433

9) Derived utilizing a combined statutory rate of 25% for the three-month periods ended April 2, 2022, and April 3, 2021, respectively, and applied to the respective adjusted pre-tax income.
10) Adjustments used to reconcile net income per diluted share on a GAAP basis to adjusted net income per diluted share are comprised of the same adjustments, inclusive of the tax impact, used to reconcile net income to adjusted net income divided by the weighted-average diluted shares outstanding during the period.

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