Aveanna Healthcare Holdings Announces First Quarter 2023 Financial Results

May 11, 2023

- ***Revenue increased 3.5% to $466.4 million, compared to Q1 2022***
  - ***Gross margin decreased 0.2% to $144.5 million, compared to Q1 2022***
- ***Net loss was $32.0 million, compared to net income of $25.3 million in Q1 2022***
  - ***Adjusted EBITDA decreased 25.0% to $28.5 million, compared to Q1 2022***
- ***Affirms previously issued 2023 guidance***

ATLANTA, May 11, 2023 (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 1, 2023.

Jeff Shaner, Chief Executive Officer, commented “Our first quarter results reflect the Aveanna team’s remarkable ability to adapt and transform our businesses as we execute on our strategic initiatives. Enhanced payor partnerships allow us to further invest in our caregivers and broaden our care to more patients in need. We are delivering high-quality care to our patients at an exceptional value to our government and payor partners. The Aveanna team’s efforts produced solid results, and we are pleased with our early 2023 performance. We remain confident in our outlook for the remainder of 2023.”

Three-Month Periods Ended April 1, 2023 and April 2, 2022

Revenue was $466.4 million for the three-month period ended April 1, 2023, as compared to $450.5 million for the three-month period ended April 2, 2022, an increase of $15.9 million, or 3.5%. The overall increase in revenue was attributable to a $22.8 million increase in Private Duty Services (“PDS”) segment revenue and a $3.6 million increase in Medical Solutions ("MS") segment revenue, partially offset by a $10.5 million decrease in Home Health & Hospice (“HHH”) segment revenue over the comparable quarter.

Gross margin was $144.5 million, or 31.0% of revenue, for the three months ended April 1, 2023, as compared to $144.8 million, or 32.1% of revenue, for the three months ended April 2, 2022, a decrease of $0.4 million, or 0.2%.

Net loss was $32.0 million for the first quarter of 2023, as compared to net income of $25.3 million for the first quarter of 2022, primarily attributable to a $56.8 million decrease in non-cash valuation gains associated with interest rate derivatives driven by changes in market expectations for future interest rates. Net loss per diluted share was $0.17 for the first quarter of 2023, as compared to net income per diluted share of $0.14 for the first quarter of 2022. Adjusted net loss per diluted share was $0.05 for the first quarter of 2023, as compared to adjusted net income per diluted share of $0.04 for the first quarter of 2022.

Adjusted EBITDA was $28.5 million, or 6.1% of revenue, for the first quarter of 2023, as compared to $38.0 million, or 8.4% of revenue, for the first quarter of 2022.

Liquidity, Cash Flow, and Debt

- As of April 1, 2023, we had cash of $34.4 million and incremental borrowing capacity of $20.0 million under our securitization facility. Our revolver was undrawn, with approximately $162.0 million of borrowing capacity and approximately $38.0 million of outstanding letters of credit.

- First quarter 2023 net cash provided by operating activities was $7.5 million. Free cash flow was $2.9 million for the first quarter of 2023. See “Non-GAAP Financial Measures - Free cash flow” below.
- As of April 1, 2023 we had bank debt of $1,476.7 million. Our interest rate exposure under our credit facilities is currently 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%.

The leverage maintenance covenants in our revolving credit facility do not become operative unless more than 30% of the total commitment under the revolving credit facility has been utilized, subject to a $15.0 million carve-out for letters of credit. Should the leverage maintenance covenant become operative, maximum allowable first lien leverage would be 7.6x.

David Afshar, Chief Financial Officer, commented “We are pleased with the first quarter results delivered by our dedicated Aveanna teams as we continue to focus on improving the quality of our earnings as well as cash flow growth. We believe we have the necessary liquidity to fund our operations, and our hedged positions on our credit facilities provide us with continued protection against interest rate increases. Our interest rate swaps extend through June 2026, and our interest rate caps extend through February 2027.”

Full Year 2023 Guidance

- Revenue of at least $1,840 million

Consistent with prior practice, we are not providing guidance on net income at this time due to the volatility of certain required inputs that are not available without unreasonable efforts, including future fair value adjustments associated with our interest rate swaps and caps.

- Adjusted EBITDA of at least $130 million

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 net income, Adjusted net income per diluted share, and Free cash flow. 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 GAAP, such as net (loss) income. Rather, we present EBITDA and Adjusted EBITDA as supplemental measures of our performance. We define EBITDA as net (loss) income 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; 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; restructuring costs; other legal matters; 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. 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 gross margin and gross margin percentage. Rather, we present Field contribution and Field contribution margin as supplemental measures of our performance. We define Field contribution as gross margin less branch and regional administrative 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.

Field contribution and Field contribution margin have limitations as analytical tools and should not be considered in isolation or as substitutes or alternatives to gross margin, gross margin percentage, 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.

Management believes 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 or not 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 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, loss on extinguishment of debt, interest rate derivatives, acquisition-related costs, integration costs, legal costs, COVID-related costs net of reimbursement, restructuring costs, other legal matters, 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 (loss) per diluted share represents adjusted net income (loss) 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.

Free cash flow

Free cash flow is a liquidity measure that represents operating cash flow, adjusted for the impact of purchases of property, equipment and software, principal payments on term loans, notes payable and financing leases, and settlements with derivative counterparties. The most comparable GAAP measure is cash flow from operations.

We believe free cash flow is helpful in highlighting the cash generated or used by the Company, after taking into consideration mandatory payments on term loans, notes payable and financing leases, as well cash needed for non-acquisition related capital expenditures, and cash paid to or received from derivative counterparties.

Conference Call

Aveanna will host a conference call on Thursday, May 11, 2023, at 10:00 a.m. Eastern Time to discuss our first quarter 2023 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 18, 2023, by dialing 1-844-512-2921, or for international callers, 1-412-317-6671. The passcode for the replay is 13737306. 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 2022 fiscal year filed with the Securities and Exchange Commission on March 16, 2023, 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 periods presented:

	For the three-month periods ended	
(dollars in thousands)	**April 1, 2023**	**April 2, 2022**
Net cash provided by (used in) operating activities	$ 7,495	$ (9,476)
Net cash used in investing activities	$ (4,800)	$ (16,643)
Net cash provided by financing activities	$ 12,521	$ 13,068
Cash and cash equivalents at beginning of period	$ 19,217	$ 30,490
Cash and cash equivalents at end of period	$ 34,433	$ 17,439

The following table presents our long-term indebtedness as of April 1, 2023:

(dollars in thousands)		
Instrument	**Interest Rate**	**April 1, 2023**
2021 Extended Term Loan	L + 3.75%	$ 906,650
Second Lien Term Loan	L + 7.00%	415,000
Revolving Credit Facility	L + 3.75%	-
Securitization Facility	BSBY + 2.25%	155,000
Total indebtedness		$ 1,476,650

L = Greater of 0.50% or one-month LIBOR

Results of Operations

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 1, 2023	**April 2, 2022**
Revenue	$ 466,413	$ 450,534
Cost of revenue, excluding depreciation and amortization	321,948	305,708
Branch and regional administrative expenses	91,708	88,743
Corporate expenses	30,935	36,567
Depreciation and amortization	4,041	5,819
Acquisition-related costs	70	91
Other operating expense (income)	72	(170)
Operating income	17,639	13,776
Interest income	75	62
Interest expense	(35,958)	(22,364)
Other (expense) income	(12,188)	36,457
(Loss) income before income taxes	(30,432)	27,931
Income tax expense	(1,566)	(2,597)
Net (loss) income	$ (31,998)	$ 25,334
Net (loss) income per share:		
Net (loss) income per share, basic	$ (0.17)	$ 0.14
Weighted average shares of common stock outstanding, basic	189,054	184,927
Net (loss) income per share, diluted	$ (0.17)	$ 0.14
Weighted average shares of common stock outstanding, diluted	189,054	185,427

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 1, 2023**	**April 2, 2022**	**Change**	**% Change**
Revenue	$ 466,413	$ 450,534	$ 15,879	3.5%
Cost of revenue, excluding depreciation and amortization	321,948	305,708	16,240	5.3%
Gross margin	$ 144,465	$ 144,826	$ (361)	-0.2%
Gross margin percentage	31.0%	32.1%		
Branch and regional administrative expenses	91,708	88,743	2,965	3.3%

Field contribution	$ 52,757	$ 56,083	$ (3,326)	-5.9%
Field contribution margin	11.3%	12.4%		
Corporate expenses	$ 30,935	$ 36,567	$ (5,632)	-15.4%
As a percentage of revenue	6.6%	8.1%		
Operating income	$ 17,639	$ 13,776	$ 3,863	28.0%
As a percentage of revenue	3.8%	3.1%		

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 1, 2023	April 2, 2022	Change	% Change
Revenue	$ 372,947	$ 350,190	$ 22,757	6.5%
Cost of revenue, excluding depreciation and amortization	268,763	251,874	16,889	6.7%
Gross margin	$ 104,184	$ 98,316	$ 5,868	6.0%
Gross margin percentage	27.9%	28.1%		-0.2% (4)
Hours	9,783	9,612	171	1.8%
Revenue rate	$ 38.12	$ 36.43	$ 1.69	4.7% (1)
Cost of revenue rate	$ 27.47	$ 26.20	$ 1.27	4.9% (2)
Spread rate	$ 10.65	$ 10.23	$ 0.42	4.2% (3)

	HHH			
	For the three-month periods ended			
(dollars and admissions/episodes in thousands)	April 1, 2023	April 2, 2022	Change	% Change
Revenue	$ 56,126	$ 66,623	$ (10,497)	-15.8%
Cost of revenue, excluding depreciation and amortization	31,095	34,168	(3,073)	-9.0%
Gross margin	$ 25,031	$ 32,455	$ (7,424)	-22.9%
Gross margin percentage	44.6%	48.7%		-4.1% (4)
Home health total admissions (5)	11.7	14.3	-2.6	-18.2%
Home health episodic admissions (6)	8.0	8.7	(0.70)	-8.0%
Home health total episodes (7)	11.9	13.8	(1.90)	-13.8%
Home health revenue per completed episode (8)	$ 2,969	$ 2,942	$ 27	0.9%

	MS			
	For the three-month periods ended			
(dollars and UPS in thousands)	April 1, 2023	April 2, 2022	Change	% Change
Revenue	$ 37,340	$ 33,721	$ 3,619	10.7%
Cost of revenue, excluding depreciation and amortization	22,090	19,666	2,424	12.3%
Gross margin	$ 15,250	$ 14,055	$ 1,195	8.5%
Gross margin percentage	40.8%	41.7%		-0.9% (4)
Unique patients served (“UPS”)	85	78	7	9.0%
Revenue rate	$ 439.29	$ 432.32	$ 6.97	1.7% (1)
Cost of revenue rate	$ 259.88	$ 252.13	$ 7.75	3.3% (2)
Spread rate	$ 179.41	$ 180.19	$ (0.78)	-0.5% (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 gross margin and gross margin percentage to Field contribution and Field contribution margin:

	For the three-month periods ended	
(dollars in thousands)	April 1, 2023	April 2, 2022
Gross margin	$ 144,465	$ 144,826
Branch and regional administrative expenses	91,708	88,743

Field contribution	$	52,757	$	56,083
Revenue	$	466,413	$	450,534
Field contribution margin		11.3 %		12.4 %

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

	For the three-month periods ended	
(dollars in thousands)	**April 1, 2023**	**April 2, 2022**
Net (loss) income	$ (31,998)	$ 25,334
Interest expense, net	35,883	22,302
Income tax expense	1,566	2,597
Depreciation and amortization	4,041	5,819
EBITDA	9,492	56,052
Goodwill, intangible and other long-lived asset impairment	68	(112)
Non-cash share-based compensation	2,442	4,815
Interest rate derivatives[1]	11,922	(36,183)
Acquisition-related costs[2]	70	91
Integration costs[3]	1,133	6,747
Legal costs and settlements associated with acquisition matters[4]	304	1,039
COVID-related costs, net of reimbursement[5]	-	4,172
Restructuring[6]	2,127	-
Other system transition costs, professional fees and other[7]	923	1,329
Total adjustments	$ 18,989	$ (18,102)
Adjusted EBITDA	$ 28,481	$ 37,950

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

	For the three-month periods ended	
(dollars in thousands, except share and per share data)	**April 1, 2023**	**April 2, 2022**
Net (loss) income	$ (31,998)	$ 25,334
Income tax expense	1,566	2,597
Goodwill, intangible and other long-lived asset impairment	68	(112)
Non-cash share-based compensation	2,442	4,815
Interest rate derivatives[1]	11,922	(36,183)
Acquisition-related costs[2]	70	91
Integration costs[3]	1,133	6,747
Legal costs and settlements associated with acquisition matters[4]	304	1,039
COVID-related costs, net of reimbursement[5]	-	4,172
Restructuring[6]	2,127	-
Other system transition costs, professional fees and other[7]	923	1,329
Total adjustments	20,555	(15,505)
Adjusted pre-tax net (loss) income	(11,443)	9,829
Income tax benefit (expense) on adjusted pre-tax (loss) income[9]	2,861	(2,457)
Adjusted net (loss) income	$ (8,582)	$ 7,372
Weighted average shares outstanding, diluted	189,054	185,427
Adjusted net (loss) income per diluted share[10]	$ (0.05)	$ 0.04

The following footnotes are applicable to tables above that reconcile (i) net (loss) income to EBITDA and Adjusted EBITDA and (ii) net (loss) income to Adjusted net (loss) income.

1) 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.

2) 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.

3) Represents (i) costs associated with our Integration Management Office, which focuses on our integration efforts and transformational projects such as systems conversions and implementations, material cost reduction and restructuring projects, among other things, of $0.4 million and $1.1 million for the three-month periods ended April 1, 2023 and April 2, 2022, respectively; and (ii) transitionary costs incurred to integrate acquired companies into our field and corporate operations of $0.7 million and $5.6 million for the three-month periods ended April 1, 2023 and April 2, 2022, 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.

4) 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 $0.1 million and $1.0 million for the three-month periods ended April 1, 2023 and April 2, 2022, 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.

5) 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; net of temporary reimbursement rate increases provided by certain state Medicaid and Medicaid Managed Care programs which approximated $4.2 million for the three-month period ended April 2, 2022.

6) Represents costs associated with restructuring our branch and regional administrative footprint as well as our corporate overhead infrastructure costs for the three-month period ended April 1, 2023, in order to appropriately size our resources to current volumes, including: (i) branch and regional salary and severance costs; (ii) corporate salary and severance costs; and (iii) rent and lease termination costs associated with the closure of certain office locations.

7) Represents (i) costs associated with the implementation of, and transition to, new electronic medical record systems, billing and collection systems, duplicative system costs while such transformational projects are in-process, and other system transition costs of $0.7 million and $1.6 million for three-month periods ended April 1, 2023 and April 2, 2022, respectively, respectively; (ii) professional fees associated with preparation for Sarbanes-Oxley compliance of $0.5 million and $0.2 million for the three-month periods ended April 1, 2023 and April 2, 2022, respectively; (iii) $(0.2) million of net gains on disposal of businesses during the three-month period ended April 2, 2022 (there were no such gains or losses in the current year); 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 $(0.3) million for the three-month periods ended April 1, 2023 and April 2, 2022, 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.

9) Derived utilizing a combined statutory rate of 25% for the three-month periods ended April 1, 2023, and April 2, 2022, respectively, and applied to the respective adjusted pre-tax (loss) income.

10) Adjustments used to reconcile net loss per diluted share on a GAAP basis to adjusted net (loss) income per diluted share are comprised of the same adjustments, inclusive of the tax impact, used to reconcile net loss to adjusted net (loss) income divided by the weighted-average diluted shares outstanding during the period.

	For the three-month periods ended	
(dollars in thousands)	**April 1, 2023**	**April 2, 2022**
Revenue	$ -	$ -
Cost of revenue, excluding depreciation and amortization	145	3,936
Branch and regional administrative expenses	1,641	1,390
Corporate expenses	4,874	13,107
Acquisition-related costs	70	91
Other operating expense (income)	-	(170)
Other expense (income)	12,259	(36,456)
Total adjustments	$ 18,989	$ (18,102)

The following table reconciles the net increase (decrease) in cash and cash equivalents to free cash flow:

	For the three-month period ended
(dollars in thousands)	**April 1, 2023**
Net cash provided by (used in) operating activities	7,495
Purchases of property and equipment, and software	(2,122)
Principal payments of term loans	(2,300)
Principal payments of notes payable and financing lease obligations	(3,398)
Settlements with derivative counterparties	3,219
Free cash flow	$ 2,894

Investor Contact
Dave Afshar
Chief Financial Officer
ir@aveanna.com