Sidoti & Company, LLC
Member FINRA & SIPC

317 Madison Ave
New York, NY 10017
(212) 297-0001
(212) 297-9166
www.sidoti.com

Required disclosures appear in the Appendix.

Morning Meeting Note

Northstar Healthcare, Inc. (NHC.TO-$1.48)

BUY

Raise Price Target; Adjust Earnings Estimates

Target: $6

Keith Hinton (212) 542-4001 (khinton@sidoti.com)

September 4, 2014

Market Cap (Mil)	**$65**	**Price to Book Value**	**4.3x**
Avg. Daily Trading Volume	**39,000**	**Return on Equity (2015E)**	**33.9%**
Shares Out (Mil)	**43.411**	**Total Debt to Total Capital**	**12%**
Float Shares (Mil)	**17.486**	**5-Year EPS Growth Rate Projection**	**15%**
Institutional Holdings / Analysts Covering	**13% / 1**	**52-Week Range (TSX)**	**1.64-0.41**
Dividend / Dividend Yield	**Nil / N/A**	**Net Cash Per Share (2015E)**	**$0.73**
Free Cash Flow Per Share (2015E)	**$0.20**	**Short Interest (Mil) / Russell 2000**	**0.029 / 1172**

	2012	2013	2014E OLD	2014E NEW	2015E OLD	2015E NEW
Mar.	($0.02)	($0.02)	($0.03)A		$0.06	
June	0.01	(0.02)	0.01A		0.07	0.08
Sep.	0.03	(0.01)	0.05		0.08	
Dec.	0.01	0.08	0.13		0.09	0.12
EPS	**$0.03**	**$0.04**	**$0.16**	**$0.17**	**$0.30**	**$0.34**
P/E				**8.0x**		**4.0x**

Action	Date	Px	Rating	PT
Initiation	3/6/14	1	Buy	N/A
PT	6/26/14	1		5

Note: EPS include annual stock-based compensation of less than $0.01 per share in 2012, and $0.01 per share in 2013-2015. Sum of quarterly data may not equal full-year total due to rounding and/or change in share count. NC=Not covered by Sidoti & Company, LLC.

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014E	2015E
Rev.(Mil.)	N/A	$32.9	$42.7	$24.9	$12.3	$14.4	$20.9	$31.1	$84.2	$133.4
GAAP EPS	N/A	$0.23	($7.50)	($0.75)	($0.26)	($0.07)	$0.03	$0.04	$0.17	$0.34

Description: Northstar Healthcare Inc. (www.northstar-healthcare.com) manages and operates ambulatory surgical centers (ASC)s, surgical procedure suites, radiology facilities and an urgent care center, all located in Texas and Arizona. Together with their physician limited partners (PLPs), Northstar's facilities perform primarily outpatient, non-emergency surgeries that center around the chosen specialties of pain management and orthopedics (75% of revenue). Headquarters are in Houston, TX.

Reiterate BUY Rating, Raise Price Target To $6 (From $5) After Raising Our 2015 EPS Estimate On The Announcement Of A Hospital And ASC Facility Purchase In Houston

- **Northstar reached an agreement to acquire a 51% interest in a hospital and an ASC facility in Houston, TX for $7.5 million.**
- **Management indicated that the company will finance the acquisition via a brokered equity private placement of $10 million by October 1, 2014.**
- **We raised our EPS estimate for F2015 to $0.34 (from $0.30) to reflect Northstar's ability to increase patient volume at the acquired facilities by leveraging marketing campaigns that are already in place in the Houston market.**
- **Expectations regarding the dual-listing to the NYSE MKT are unchanged; we anticipate a reverse stock split and a listing this fall.**
- **We maintain our BUY rating and raise our target to $6 (from $5). Our new target is 15x our just-increased 2015 EPS estimate of $0.34 plus $0.73 in estimated cash at the end of 2015.**
- **Previously, we valued the stock at 15x our prior F2015 EPS estimate of $0.30 plus estimated year-end 2015 cash.**

❑ **While an acquisition before the upcoming NYSE listing was expected, the facility's size was larger than anticipated.** On Wednesday morning, Northstar issued a press release indicating that it agreed to acquire a 51% interest in a surgical hospital and an ASC facility through a joint venture with First Surgical Partners Holdings, Inc. (FSPI, OTC, NC). Although we expected the company to complete an acquisition prior to its dual listing on the NYSE MKT, the size of the acquisition is larger than we had anticipated. The annual revenue stream from the hospital and ASC indicated in the press release was $28 million. In a conversation with management, we learned that the company anticipates an immediate increase in the revenue from the acquired facilities thanks to a pick-up in patient volume from active direct-to-consumer marketing campaigns in Houston, which is Northstar's primary market. We do not expect the deal to close until late September, so we are not modeling any revenue from these facilities in 3Q:14. However, as both facilities are already up and running, we expect the company to get a full quarter of revenue in 4Q:14. As such, we are modeling $10 million in revenue from these two facilities in 4Q:14, and a total of $44 million in revenue from these facilities in 2015.

- **Financing for the joint venture will come from a brokered private placement of equity.** In order to raise the $7.5 million necessary to acquire the 51% interest in the two facilities via the joint venture with First Surgical, Northstar will issue $10 million of additional stock via a brokered private placement with clients in Canada. We are modeling a price of $1.25 for the stock, which equates to an 8 million share increase in our diluted share count to 54.2 million beginning in 4Q:14. No information has been made public regarding the terms of the private placement, so the offering price and increase in share count are based on our estimations.

- **We expect the acquisition to be accretive to EPS beginning in 2015.** While we expected the company to buy a hospital facility in one of its established markets, the facility is bigger than we had anticipated. Nevertheless, Houston is Northstar's primary market, and the targeted market for all three of the company's main direct-to-consumer marketing campaigns (in podiatry, spinal surgery, and bariatric surgery). The addition of the hospital facility and another ASC will aid those marketing efforts in two ways. First, by increasing the number of surgeons and operating rooms at the company, Northstar will resolve scheduling issues and improve lead-to-procedure times. Second, having a hospital with the ability to house patients overnight will allow surgeons to perform more complex procedures at Northstar facilities. Currently, patients who respond to advertising but are in need of a complex procedure that cannot be performed at a Northstar facility are sent elsewhere. Therefore, adding a hospital with overnight stay capabilities should improve the company's lead-to-procedure conversion ratio. Therefore, we think that Northstar will immediately increase patient volume and revenue at the new facilities and make the acquisition accretive to EPS in 2015 by leveraging the fixed costs of the three marketing campaigns ongoing in the Houston area. As such, we raise our 2015 EPS estimate to $0.34 (from $0.30).

- **Management will keep leveraging marketing campaigns by acquiring more in-market facilities.** As this joint venture will be Northstar's largest acquisition since its IPO in 2007, we think it is likely that management's focus for the time being will be diverted towards closing the deal and integrating these two facilities into the revenue pipeline. However, it is worth noting that this is Northstar's third major acquisition since December 2013. Management is committed to its goal of leveraging marketing costs via in-market acquisitions. So, while we are not modeling revenue from any unannounced acquisitions, we expect the company to continue its roll-ups after its listing on the NYSE MKT is completed.

- **We expect the company to dual list on the NYSE MKT by mid-November at the latest.** We indicated in previous notes that we expected Northstar to pair its dual-listing with an announcement of an acquisition of a small hospital in one of its existing markets. We now think the acquisition announced on Wednesday morning will serve as the "positive momentum event" that Northstar management was looking for to go along with the dual listing. Management expects the private placement to be completed by October 1, so that the joint venture is established in time to have a full quarter of revenue contribution from the facility in 4Q:14. Also towards the end of October, we expect the SEC to accept Northstar's application for a dual listing on the NYSE MKT (contingent upon a shareholder-approved reverse-stock split to reach the $2 per share price minimum), at which point, we expect Northstar to execute the reverse split and complete the listing.

- **We raise our price target to $6 (from $5) and maintain our BUY rating.** We derive our new price target by applying a 15x multiple to our new 2015 EPS estimate of $0.34 and adding $0.74 per share of estimated cash that we forecast at the end of 2015. (Previously, we valued the stock at 15x our 2015 EPS estimate of $0.30 plus $0.41 of cash per share). Our multiple of 15x represents a discount to the company's peer group due to uncertainty involving the accretive nature of Northstar's acquisitions, as well as Northstar's smaller size and liquidity. The multiple is in line with our 15% five-year EPS CAGR.

Key Risks	Cost and timing of integration of facilities bought from bankruptcy	Management time and effort stretched thin from acquisitions	Poor returns on new marketing campaigns

Table 1: Northstar Healthcare Income Statement

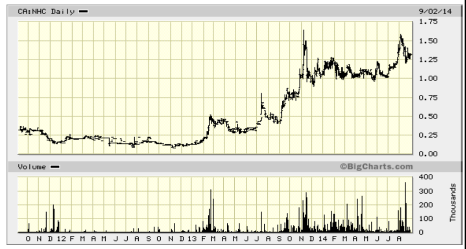
($ in thousands, except per share amounts)

	F2012	1Q:13	2Q:13	3Q:13	4Q:13	F2013	1Q:14A	2Q:14A	3Q:14E	4Q:14E	F2014E	1Q:15E	2Q:15E	3Q:15E	4Q:15E	F2015E
Revenue	**20,897**	**4,121**	**5,862**	**7,640**	**13,505**	**31,128**	**12,121**	**15,114**	**19,994**	**36,997**	**84,226**	**27,950**	**30,152**	**33,853**	**41,456**	**133,411**
Growth (year-over-year)	45.3%	27.6%	14.4%	25.8%	108.7%	49.0%	194.1%	157.8%	161.7%	174.0%	170.6%	130.6%	99.5%	69.3%	12.1%	58.4%
COGS	(7,968)	(2,218)	(2,402)	(2,604)	(4,812)	(12,036)	(4,038)	(4,878)	(7,298)	(12,469)	(28,683)	(9,385)	(9,895)	(10,648)	(12,815)	(42,743)
Gross Profit	**12,929**	**1,903**	**3,460**	**5,036**	**8,693**	**19,092**	**8,083**	**10,236**	**12,696**	**24,528**	**55,543**	**18,565**	**20,257**	**23,205**	**28,641**	**90,668**
SG&A	(6,169)	(1,643)	(2,475)	(3,570)	(5,189)	(12,877)	(6,458)	(6,695)	(6,887)	(8,487)	(28,527)	(8,258)	(8,206)	(8,354)	(8,658)	(33,476)
Other (Expense) Income	(669)	(137)	(228)	(303)	2,076	1,408	(736)	(316)	(100)	(500)	(1,652)	(150)	(150)	(150)	(150)	(600)
Non-controlling interests	(4,042)	(653)	(1,145)	(1,328)	(2,350)	(5,476)	(1,359)	(2,505)	(2,999)	(7,769)	(14,632)	(6,149)	(6,030)	(6,771)	(8,291)	(27,241)
EBITDA	**2,049**	**(530)**	**(388)**	**(165)**	**3,230**	**2,147**	**(470)**	**720**	**2,710**	**7,772**	**10,731**	**4,008**	**5,871**	**7,930**	**11,542**	**29,351**
Depreciation and Amortization	(850)	(175)	(175)	(174)	(207)	(731)	(330)	(334)	(430)	(660)	(1,754)	(780)	(805)	(830)	(855)	(3,270)
Operating Income (EBIT)	**1,199**	**(705)**	**(563)**	**(339)**	**3,023**	**1,416**	**(800)**	**386**	**2,280**	**7,112**	**8,977**	**3,228**	**5,066**	**7,100**	**10,687**	**26,081**
Interest expense	-	-	-	-	-	-	-	-	(13)	(13)	(26)	-	-	-	-	-
Pretax Income	1,199	(705)	(563)	(339)	3,023	1,416	(800)	386	2,267	7,099	8,951	3,228	5,066	7,100	10,687	26,081
Tax income (expense)	-	-	-	-	-	-	-	(158)	(160)	(160)	(478)	(160)	(720)	(2,485)	(3,740)	(7,105)
Net Income	**1,199**	**(705)**	**(563)**	**(339)**	**3,023**	**1,416**	**(800)**	**228**	**2,107**	**6,939**	**8,473**	**3,068**	**4,346**	**4,615**	**6,946**	**18,975**
Earnings per share - diluted	**$0.03**	**($0.02)**	**($0.02)**	**($0.01)**	**$0.08**	**$0.04**	**($0.02)**	**$0.01**	**$0.05**	**$0.13**	**$0.17**	**$0.06**	**$0.08**	**$0.08**	**$0.12**	**$0.34**
Weighted average shares - diluted	35,764	36,222	36,309	36,818	38,653	37,638	43,191	44,641	46,127	54,202	49,823	54,277	55,752	55,827	55,902	55,440
Margin analysis:																
Gross margin	61.9%	46.2%	59.0%	65.9%	64.4%	61.3%	66.7%	67.7%	63.5%	66.3%	65.9%	66.4%	67.2%	68.5%	69.1%	68.0%
EBITDA Margin	9.8%	NM	NM	NM	23.9%	6.9%	NM	4.8%	13.6%	21.0%	12.7%	14.3%	19.5%	23.4%	27.8%	22.0%
Operating (EBIT) Margin	5.7%	NM	NM	NM	22.4%	4.5%	NM	2.6%	11.4%	19.2%	10.7%	11.6%	16.8%	21.0%	25.8%	19.5%
Net margin	5.7%	NM	NM	NM	22.4%	4.5%	NM	1.5%	10.5%	18.8%	10.1%	11.0%	14.4%	13.6%	16.8%	14.2%
Effective tax rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	40.9%	7.1%	2.3%	5.3%	5.0%	14.2%	35.0%	35.0%	27.2%

Appendix
Required Disclosures

Northstar Healthcare, Inc. (NHC.TO-$1.48) BUY Target: $6 September 4, 2014

Action	Date	Px	Rating	PT
Initiation	3/6/14	1	Buy	N/A
PT	6/26/14	1		5



Key Risks	Cost and timing of integration of facilities bought from bankruptcy	Management time and effort stretched thin from acquisitions	Poor returns on new marketing campaigns

Valuation:
We derive our new price target by applying a 15x multiple to our new 2015 EPS estimate of $0.34 and adding $0.74 per share of estimated cash that we forecast at the end of 2015.

Required Disclosures

The Sidoti & Company, LLC (Sidoti) Equity Research rating system consists of BUY and NEUTRAL recommendations. BUY suggests capital appreciation of at least 25% from initiation of coverage over the next 12 months, while NEUTRAL denotes that a stock is not likely to provide similar gains over a 12-month period. As of 09/04/14, Sidoti provides research on 546 companies, of which 389 (71%) are rated BUY and 157 (29%) are rated NEUTRAL. Of the BUYS, Sidoti has received investment banking income from 6 companies (1.54%). Of the NEUTRALS, Sidoti has received investment banking income from 2 companies (1.27%). Of the NEUTRALS, 62 trade above our price targets. Actual results may differ significantly from such forward-looking statements. Factors that may cause such a difference include, but are not limited to, those discussed in the “Risk Factors” section in the SEC filings available in electronic format through SEC Edgar filings at www.sec.gov. The research analyst certifies that this report accurately reflects his/her personal views about the subject securities and issuers and that none of the research analyst's compensation was, is or will be directly or indirectly related to the analyst's specific recommendations or views contained in this research report. Sidoti does NOT own securities of the issues described herein. Sidoti policy does not allow an analyst or a member of their household to own shares in any company that he/she covers. Sidoti policy does not allow employees or household members to serve as an officer or director of a covered company. Sidoti does not make a market in any securities. Sidoti has a non-research Capital Markets employee that will seek compensation for investment banking services from this company. Investment banking services, as defined under NASD Rule 2711, includes, among other things, acting as an underwriter in or as a member of the selling group in a securities underwriting. Sidoti’s role in any investment banking transaction can be viewed on this company’s filings at www.sec.gov. Sidoti employees, including research analysts, receive compensation that is based in part upon the overall performance of the firm, including revenues generated by Sidoti’s investment banking activities, but compensation is not directly related to investment banking revenues. This company paid a fee to participate in one of Sidoti’s Micro-Cap conferences.

Other Disclosures

This report is for information purposes only and is not intended as an offer to sell or a solicitation to buy securities. Sidoti does not maintain a predetermined schedule for publication of research and will not necessarily update this report. The stock rating on this report reflects the analyst’s recommendation based on a 12 month period. Based on published near-term earnings estimates, the analyst’s short-term opinion may be different from what is published in this report. Information contained herein is based on sources we believe to be reliable but we do not guarantee their accuracy. Prices and opinions concerning the composition of market sectors included in this report reflect the judgments as of this date and are subject to change without notice. It should be presumed that the analyst who authored this report has had discussions with the subject company to ensure factual accuracy prior to publication. This report was prepared for market professionals and institutional investor customers. Market professionals

Appendix Continued

and institutional investors should consider this report as only a single factor in making their investment decisions. This research report is not a substitute for the exercise of your independent judgment. At times, Sidoti may be in possession of material non-public information, none of which is used in the preparation of our research. Sidoti maintains and enforces written policies and procedures reasonably designed to prevent any controlling persons, officers (or persons performing similar functions), or employees of Sidoti from influencing the activities of research analysts and the content of research reports prepared by the research analyst. Reprints of Sidoti & Company, LLC reports are prohibited without permission. Additional information is available upon request.