“I’M NOT DEAD YET,” BUT “WE’RE NOT IN KANSAS ANYMORE!”

HOME HEALTH AND HOSPICE M&A ROARS BACK

Holy mixed metaphors, Batman!

Recalling *Monty Python and the Holy Grail,* Home Health and Hospice M&A is “not dead yet.”

After a disheartening – and somewhat mysterious – plunge in aggregate deal volume in 2015, home health and hospice M&A is well on its way back to the levels posted between 2011 and 2014.

What’s more, gains were seen in every segment – Medicare, Medicaid, Private Duty, and Hospice. (See chart on next page.)

What’s even more, more: private duty – The Little Engine That Could of Home Care M&A (“I think I can, I think I can”) – finally did, putting up 17 deals in the first half of the year, a six-month figure that tops what the segment tallied for four of the past five full years. (See chart on next page.)

But lest you think home health and hospice M&A has returned to its previous state, well, we’re not in Kansas anymore, Toto.

As market dynamics have changed, so have the buying rationales, geography, and even the buyers themselves.

So what are today’s memes and what do they mean for home care and hospice M&A?
Readmission Poltergeist. Facing penalties of 3% of Medicare billings, the two words haunting hospital administrators these days are, “We’re baaack,” aka post-discharge readmissions. So in today’s environment, there’s quite an incentive to align in some way with ancillary service providers to have a hand in a patient’s transition back into the community.

M&A Impact. After two decades of shedding the non-acute programs that were added during the “great systemization” movement during the ’90s, hospitals are once again eyeing home health and hospice transactions and joint ventures.

Time to Get Your Fit Together. Building on the meme above, forget the one-note wonders – the ubiquitous strategy “du ‘fore” of building competitive advantage by doing one thing only, but doing it really well. The strategy du jour is coordinated care, in all its forms. From an alphabet soup of ACOs¹, BPCIs², CJRs³, APMs⁴, and other impenetrable acronyms, companies are trying to piece together a posse of providers to seamlessly move patients to the least costly, most clinically effective setting during a defined “episode of care,” or for a discreet population. In a coordinated care environment then, buyers are increasingly looking to acquire providers across the care continuum vs. within it.

¹ Accountable Care Organizations
² Bundled Payments for Care Improvements
³ Comprehensive Care for Joint Replacement
⁴ Advanced Alternative Payment Models
M&A Impact. That’s why, among other emerging combinations, we’re seeing skilled nursing facilities cozying up to home health and hospice, certified home health agencies eye-balling Medicaid and private duty providers to build out their post-intermittent, extended paraprofessional capacity and why, after a brief flirtation with this model during the early 2000s, we may once again see attempts to merge home care with home physician providers.

The Rise of the One-Offs. In this kind of environment, we will see fewer “serial” buyers planting home health and hospice flags across the nation. In its place, however, we will see (and have already seen) more “cross-sector” activity over tight geographic footprints to meet the coordinated care requirements emanating from hospitals, physician groups, employers, insurance plans, skilled nursing providers, and so-called conveners – companies like Remedy Partners and Envision Healthcare – that aggregate resources via acquisition and/or partnership.

M&A Impact. Unlike the past when you might have been able to count on one of “the Nationals,” today’s buyer is more likely to be looking for that one provider that fills a specific service gap in (a) the coordinated care model they are pursuing and (b) over a geographic footprint that reflects the plan’s patient base. The bad news is that “perfect-fit” buyers are hard to find. The “badder” news is for many - one deal and they’re out – the very definition of a one-off buyer.

Margins, and Outcomes, and Stars, Oh My! A bunch ‘o themes running together here. First, amidst a steady erosion of HHA margins, there is the challenge of re-jiggering clinical pathways to save money, while simultaneously improving outcomes and enhancing the patient experience, all the while trying to decode the rating system to catch a shooting star. It’s a balancing act worthy of Phillipe Petit (look it up); one that practically cries out for predictive analytics to identify high-resource patients upon admission in order to best allocate those tightly managed resources.

M&A Impact. But herein lies the opportunity to create real, sustainable, competitive advantage by investing in, and leveraging technology, data mining, remote monitoring, and the like. That’s why after a first round of post PPS consolidation and exits, private equity is returning to home health and hospice in droves. Their investment thesis? Raise and invest the capital necessary to build out best-in-class management teams and information systems to systematically (a) manage costs, (b) capture and analyze data, (c) improve – and document – outcomes, (d) earn a coveted place at the coordinated care table, at a price-point befitting their value in various advanced alternative payment models.

Uber Duper. As we discussed in a previous edition of marketWATCH, “Can Home Health be Ubered,” seemingly all of a sudden, there’s a whole lot of interest from Silicon Valley types to apply an Uber-reminiscent, technology-enabled, client-and-caregiver-friendly interface to home care. And with this whole lot of interest, upstarts such as Hometeam, Honor, and Home Hero have raised a whole lot of early stage, venture capital to a tune of $130M combined.

M&A Impact. Although it’s natural to see this as a potential threat to more traditional providers, our experience shows that there’s almost always a play for nimble, local providers with extensive ties to the community. What’s more, high profile investment in a space begets greater visibility, which begets me-too investor interest in both the sector and adjacent markets, which begets greater demand for deals, which begets competition driven increases in valuation. All of which provides greater opportunities for sellers to get out while the begetting’s good.

In summary…

Although the wooers are wooing wookies for different reasons, there’s still a whole lot’a wooing going on.

Woo knew?
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¹ Source: Thomson Reuters, based on number of deals between 2007 and 2015

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