Private Equity Investment in Home Care Hits New High

By Tim Mullaney | March 27, 2017

Private equity investment in the home care and hospice sectors hit a new high in 2016.

As of the third quarter of 2016, more than 50 home care and hospice transactions involved private equity buyers, compared with fewer than 30 of these transactions in all of 2015, according to proprietary data from M&A advisory firm The Braff Group.

Of particular note, new platform deals accounted for nearly half of all PE investments last year.

“The volume of new platform investments in home care and hospice is at the highest level it’s ever been, and by a magnitude of more than two-times the [previous] highest amount,” Braff Group President Dexter Braff said while sharing the data last week at the National Investment Center for Seniors Housing & Care (NIC) Spring Investment Forum in San Diego.
Primarily, PE investors have been buying private duty companies, Braff noted.

“I think why you’re seeing private equities invest is that they can see the natural growth potential. It makes sense,” said Arnold Whitman, founder and chairman of Formation Capital, a private investment management firm focused on senior housing and post-acute care.

Specifically, home care is poised to play a large role both in post-acute care and also in “pre-acute” care, Whitman said. That is, in addition to supporting patients following a hospital or skilled nursing stay, a private duty agency might serve as a first touchpoint for someone who will go on to receive more intensive levels of care in a particular network of providers.

The potential value in private duty therefore “comes from both directions,” Whitman said.

Add in the role of technology in enhancing home care and lengthening the amount of time people can age in place, and the sector only looks more attractive, he noted.

Senior Helpers, Home Helpers, Great Lakes Caring, and Epic Health Services were among the high-profile providers involved in PE transactions last year.

Exit Strategies

Private equity sponsors might ultimately sell their personal care businesses to large skilled nursing operators or population health enterprises such as naviHealth or Optum, Braff said.
That exit strategy is in keeping with recent trends; senior housing and care companies have become more active acquirers of home health and hospice companies since the Affordable Care Act passed in 2010.

Some of the largest skilled nursing operators—notably The Ensign Group (Nasdaq: ENSG) and Kindred Healthcare (NYSE: KND)—have been especially active. Between 2008-2016, Ensign acquired 20 home health/hospice companies and Kindred acquired 18.

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Since the passage of the ACA, we have seen a relatively steady rise in acquisitions of home health and hospice agencies by senior housing providers

However, skilled nursing operators recently have been facing stiff headwinds. Kindred has hit the brakes on acquisitions, contributing to an overall “dip off” in senior housing and care buying activity in the last two years, Braff noted.

Whitman is “not sure” that selling to a skilled nursing operator is the PE investors’ strategy—and he is in a good position to weigh in on the question, as chairman of one of the nation’s largest SNF operators, Genesis HealthCare (NYSE: GEN).

However, he’s not discounting the possibility that a SNF company might be interested in acquiring ancillary businesses such as home care. It’s something that he thinks about “always” as an investor, he said.
“Strategically, as an investor, you’re looking at the world opportunistically,” he said. “Sometimes it makes sense to put things together, to create value, sometimes it makes more sense to take things apart … timing is everything … I think at this point in time, it’s more strategic to bring together the full continuum of services.”

While this suggests that the nation’s facility-based and home-based senior care industries could be consolidating, the industries currently remain fragmented—and the recent M&A activity isn’t altering that reality much.

Out of 42 different senior housing and care companies that bought a home care or hospice company in 2016, 28 were one-off buyers, according to the Braff data. This shows that most senior housing operators are acquiring home care when they see it as a logical fill-in service in their particular market, Dexter Braff said.

“It’s a local business,” Whitman emphasized.

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