HomeCare
The Leading Business Magazine for HME Professionals

Published on *HomeCare Magazine* (https://www.homecaremag.com)

Exploring the Trends Behind a Rise in Home Health Transactions

A multifaceted approach to M&A activity
by Greg Shulas
April 19, 2019

Coming off a banner year for mergers and acquisition (M&A) activity in the home health care industry, strategic advisors are already forecasting an exuberant market for transactions in 2019.

Deal-making activity is expected to be bolstered by traditional home health operators seeking to establish hospice operations or from existing hospice players seeking greater scale, as well as serial acquirers pursuing new transactions throughout all subsectors, experts say.

“I see positive signs for the industry that will impact many entities,” said Mark Kulik, managing partner at The Braff Group, a strategic health care advisory firm. Helping to fuel vibrant M&A activity is the growing demand for home health care services, as 12,000 American citizens a day register for Medicare, and as baby boomers increasingly prioritize homecare versus institutional stays, Kulik said.

The deal-making should act as an extension to what’s been a healthy 13-month period. “2018 was a very good year,” Kulik said. “We had incredible valuations that occurred in 2018. But it was not just valuations, it was the number of buyers.”

A Multifaceted Approach

Strong M&A activity will be made possible by a whole slate of industry players, including private equity (PE) firms; public companies eager to increase market share; and privately held post-acute providers seeking a competitive edge, say experts. But PE firms should be expected to sponsor the "lion's share of activity," according to a 2019 outlook from Mertz Taggart, a health care M&A advisory firm. This should put the year on track to replicate key milestones of 2018, when PE firms TPG Capital, Thomas H. Lee Partners and Welsh, Carson, Anderson & Stowe all participated in major deals.

"We expect 2019 will be another active year for M&A. However, most of the growth will come from hospice and private duty homecare," noted Corey Mertz and Bruce Vanderlaan, managing partners at Mertz Taggart, in an outlook on industry deal-making. Both areas "have seen a jump in private equity platform investments in 2018, which will spur add-on investments."

"Both are also fairly underregulated, at least compared to home health," the outlook reports. "And both are targets of the well-funded traditional home health-dominant operators, all looking to offer a coordinated care-in-the-home solution to the senior populations they serve."

The optimistic predictions come after the final number for 2018 M&A in the industry have come in. Overall, the number of deals jumped from 82 in 2017 to 110 in 2018, resulting in a 34 percent uptick in transactions, according to Mertz Taggart.

Hospice Players & Serial Acquirers

In monitoring three specific subsectors—home health, hospice and private duty homecare—Mertz Taggart found that home health boasted the most overall transactions, with 58 deals But private duty homecare represented the largest increase percentage-wise in deals from the prior reporting period, as transactions jumped from 20 deals to 45 deals, representing a 125 percent hike in M&A activity. The number of hospice M&A deals increased from 28 deals to 38 deals, representing a 36 percent increase.

The Braff Group's M&A recap for 2018 is still being calculated, as full data on fourth quarter transactions are not yet in. However, preliminary research shows that hospice deal-making was particularly strong last year, while the number of transactions were relatively flat year-over-year in private duty homecare and certified home health.

For example, hospice deals stood at 28 in 2018, up from 18 deals in 2017, an impressive 55 percent increase, according toThe Braff Group's analysis.

In contrast, 55 certified home health transactions took place last year, a decrease from 64 deals in 2017. Still, Kulik cautions that fourth quarter data could make the end result turn out flat. Overall, the peak in home health deals was between 2008 and 2014, when the market saw between 75 and 80 transactions annually.

Trends to Watch

Looking at the potential effect of macroeconomic trends on M&A, there are few emerging risks that could put a negative dent in the pace of deal flows, Kulik said. Some trends, such as the Federal Reserve's expressed interest in minimizing interest rate increases in 2019, could end up supporting the M&A market.

If there is a challenge, it will likely be the preparation for the Centers for Medicare & Medicaid Services' (CMS) new payment model for the industry, called the Patient-Driven Groupings Model (PDGM), said Kulik.

Effective Jan. 1, 2020, the new CMS initiative could potentially slow down fourth quarter transactions, as industry firms may focus on ensuring compliance with new rules during the year's final quarter, Kulik said.

Expecting a "similar level of activity" in 2019 compared to last year is Steve Morgan, COO of WellSky, a technology provider to private duty and home health care organizations.

"There is nothing on the macro level showing it will change. We expect it to be a year similar to 2018," Morgan said. Additionally, he expects the same players that made waves in 2018's M&A market to have a similar influence, as everyone from major health care providers to industry-focused private equity funds plan to fix the "unsustainable nature of health care."

"Providers understand they can have … larger scale and can direct health care outcomes more effectively. We don't see any part of post-acute care that will go untouched by M&A. All sides will get looked at," Morgan said. And overall, organizations with good financials, solid reputations and strong work cultures will stand out in the crowd and better attract buyers.

The Role of Private Equity

Helping strengthen private equity's hand in upcoming deals is the enormous amount of capital that private equity firms have stored in their coffers.

As of midyear 2018, research firm Preqin estimates that private equity companies are sitting on $1 trillion of so-called "dry powder" globally, a reference to money that these Wall Street investors have available to allocate toward future initiatives.

There are multiple reasons why PE firms would want to use their capital in home health care. Experts say these investors are buoyed by the unique lifestyle interests of aging baby boomers, and how home health care services support these interests. PE firms also appreciate the flexibility of their investment choices in the industry, including their ability to co-invest in certain initiatives that help clients.

However, as Kulik noted, the arrival of PGDM and its related reimbursement changes in 2020 poses some challenges for M&A advisors. In its outlook, Mertz Taggart said PE firms and other M&A participants will likely be watching how that regulation shapes up in the second half of the year.

“Reimbursement uncertainty tends to create valuation gaps between buyers and sellers, with buyers inclined to take a conservative approach to financial modeling, while sellers are holding out hope the behavioral adjustment will go away before it takes effect,” the managing partners at Mertz Taggart reported in the outlook. “The fluidity of this issue makes it difficult to predict when we’ll start to see more alignment with valuation prior to locking in the final rule.”

About the Author
Greg Shulas is a freelance writer for HomeCare Magazine.

Related Articles