Several months ago when we released our market report, “Why Staffing Could be the Next Big Thing in Health Care M&A: An Investment – and Divestiture – Thesis,” the average number of deals completed per quarter between 2019 and 2020 was a sleepy 4.35 and the sector was in the midst of a rapid decline in deal flow.

But we read the tea leaves, peered into the crystal ball, and broke out the tarot cards and saw a bevy of market variables coalescing that could produce a surge in activity. Sometimes you get it right.

And sometimes you get it really, really, right.

And this is one of those times.

Based upon proprietary data collected and analyzed by The Braff Group and illustrated in the chart below, the first quarter of 2021 saw 16 transactions — the largest tally of health care staffing deals in twenty years. If we break the data down further, we can see that the quarter produced the largest number of private equity sponsored deals since the second quarter of 2017 (8), including the greatest number of market-entry platform deals since the fourth quarter of 2018 (3). Such platform transactions (designated as such because they are generally sizeable and have the human resource and operational infrastructure necessary to support follow-on acquisitions and other growth initiatives) are particularly noteworthy as they are often leading indicators of sustained heightened deal flow.

As we canvas the market, it is clear that buyers are fast recognizing the extraordinary opportunity before them, and providers are fielding more unsolicited queries than they have in years.
As we laid it out earlier in the year, the investment thesis goes as follows (the complete report can be accessed on our Health Care Staffing page at thebraffgroup.com):

- The cycle is right.
- Demand for health care staffing was rising before the pandemic.
- As a result of COVID, demand is even greater.
- With elective procedures postponed, there will be a backlog of post-pandemic surgeries.
- This, in turn, will support even greater demand for staffing long after the pandemic slows.
- Since hospitals have substantial financial incentives to perform these surgeries, the conditions may support higher pricing.
- The pool of temporary providers will swell as COVID fearing would-be caregivers return to the market and exhausted providers eschew full-time work for temporary positions.
- Revenues, margins, and valuations spike and are sustainable.

Private equity sponsors live for the kind of market dynamics described to the left.

What’s more, PE investments often beget others as sponsors frequently take their cues from their colleagues, which boosts demand and creates a wave of deal flow. Add to that sellers that want to get deals completed in 2021 to avoid the possibility of a substantial increase in capital gains tax (see “The Braff Report: The Looming 50% rise in Capital Gains Taxes”), well, if we could bet the over/under of breaking the record 41 transactions completed in 2005, we’d put a bundle on the over.