

VIEW POINTS



**When is the
right time
to sell?**



BRAFF

The leader in Health Care Services
Mergers & Acquisitions



The Braff Group Decision Construct

As the Decision Spheres move towards the bullseye, your company moves closer to the optimal time to divest.

To bring some rigor to such a difficult and often emotion-laden decision, The Braff Group developed a three-part decision construct to narrow down the best time to sell or perhaps seek an equity investment.

Imagine the bullseye of a target, designating the perfect time to sell to maximize both financial and professional returns. Now imagine three “decision spheres”—the three most important variables that drive this timing. When all three spheres converge over the bullseye, well, the moon is in the seventh house, and Jupiter’s aligned with Mars.

Decision Sphere 1: M&A Market Dynamics

This first decision sphere is pretty intuitive. How vibrant is the M&A market for your niche sector, i.e., “Is it a good time to sell?”

- Does the sector meet a pressing need, supported by current and anticipated health care economic policy, which, in turn, portends a sustained run of both utilization and funding?
- Are private equity investors blanketing the space, funding consolidations that can rapidly accelerate deal flow and sector visibility?
- Are there a substantial number of buyers competing for high quality providers?
- Do they come from different corners of the market, with varying strategic goals and objectives, increasing the likelihood that the needs of one or more buyers will line up nicely with your unique strengths and characteristics?
- Are there any visible risk factors that could quickly derail the industry?

Decision Sphere 2: Position on the Growth Curve

Buyers typically adjust their valuations to reflect a seller’s anticipated growth, or decline, respectively.

In a growth situation, then, the question is whether or not the bump in the multiple adequately reflects this growth.

This depends on where the company sits on the growth curve.

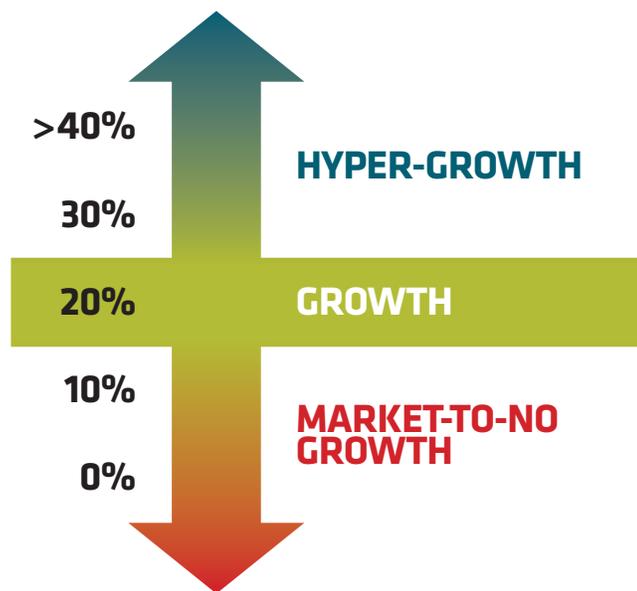
For simplicity’s sake, we categorize growth into three bands:

Hyper-growth. Although it can occur any time, hyper-growth often begins around a third of the way towards company maturity, and tails off by the mid-stage. It can be very high—as much as 25% to 50% or more, but is generally difficult to sustain for more than a few years.

Growth. Often coming on the heels of hyper-growth, we’re talking about growth that is out-pacing the market as a whole (which means a company is grabbing market share from its competitors). Typically, this ranges somewhere between 15% and 25%. Unlike hyper-growth, the most creative, innovative, and nimble companies can remain in the growth stage for many years.

Market-to-No Growth. As the name implies, this occurs when a company is growing at, or below, the growth rate of their sector. In a burgeoning health care market, “natural” market growth can be as much as 15% or more. So between a rate of 0% and 15%, a company in this stage is either holding its market share or seeing it slip.

Converting Growth to Value



So which band is optimal?

Market growth is already baked into health care valuation multiples. So in particularly vibrant segments, sellers don't receive much, if any, bump in their valuation multiples, even if they're growing between 10-15% per year.

What about hyper-growth? Of course, buyers love that kind of growth, but they know it's not likely to last. You'll be rewarded with a nice increase in your multiple but in virtually all cases, not enough to fully capture the go-forward opportunity. Alternatively, if you're willing to wait as little as a year, even if your growth slows a bit, the jump in earnings is likely to far outweigh what is likely to be a modest reduction in your growth adjusted multiple.

In the end, it's when you're in the growth band—when you're growing between 15-25% per year, when you're still gaining market share, and when it's possible to sustain this rate for several years—that a company can realize the best combination of elevated multiple and income.

Decision Sphere 3: Personal Goals and Objectives

Its positioning is personal, and it's frequently rooted in some form of burnout. You could continue to grow and compete—but you simply don't want to.

Perhaps you have other business interests which may provide better financial and/or professional returns.

There may be conflict with your partners—business or life. Breaking up a partnership—or a marriage—often triggers a need to divest. Maybe there is an ailing loved one that requires more of your time and attention.

One personal inventory item merits particular attention, not only because it is rarely considered, but because it can be a defining pivot point.

The Psychic Value of the Incremental Dollar. Developed by The Braff Group, this Personal Goals and Objectives variable is most easily explained with a simple example. Take Bill Gates: we can all imagine that the first million dollars he made held tremendous value to him, both financially and psychically. But how about a million dollars today? Not so much. In fact, it's easy to imagine that the psychic value of an incremental dollar to Bill Gates today is zero.

How does this fit in with our construct?

Quite simply, once the psychic value of any increment in the selling price of your business begins to decline—and that figure will differ widely for each individual—the value of holding on for a higher multiple or another year of growth begins to diminish as well. Every year you operate beyond this point, you take on the day-to-day risk of reductions in reimbursement, regulatory scrutiny, professional liability, etc., in exchange for very little psychic return. This alone can place you squarely in the "sell-zone."

Alas, the world is rarely kind enough to present you with a circumstance in which all three decision spheres are lined up perfectly over the selling target.

The trick, then, is to keep your eye on each for the direction—and velocity—it's headed and use this insight to narrow down the time frame when you're likely to have the greatest convergence of decision spheres around the bullseye.



The Braff Group is the leading mergers and acquisitions advisory firm specializing exclusively in health care services, including behavioral health, home health and hospice, home medical equipment, pharmacy services, staffing services, urgent care, digital health and ancillary services. The firm provides an array of sell-side only transaction advisory services including representation, debt and equity recapitalization, strategic planning, and valuation. Founded in 1998, The Braff Group has completed more than 360 transactions. According to Refinitiv, The Braff Group has repeatedly been ranked among the top 5 health care mergers & acquisitions advisory firms.



OUR INDUSTRY EXPERTS



Dexter Braff
President
Pittsburgh



Pat Clifford
Managing Director
HME & Pharmacy Services
Chicago
888-922-1834
pclifford@thebraffgroup.com



Ted Jordan
Managing Director
Behavioral Health
Atlanta
888-290-7080
tjordan@thebraffgroup.com



Mark A. Kulik, M&AMI
Managing Director
Home Health & Hospice
Atlanta
888-922-1838
mkulik@thebraffgroup.com



Nancy Weisling
Managing Director
Behavioral Health
Chicago
888-290-7237
nweisling@thebraffgroup.com



Ted Wickman
Managing Director
Staffing Services
Michigan
231-278-7080
twickman@thebraffgroup.com



Steve Garbon
Director of Finance
Pittsburgh
412-833-8690
sgarbon@thebraffgroup.com



Deirdre Stewart
Director of Research
Pittsburgh
412-833-1355
dstewart@thebraffgroup.com