Hospice News

With the hospice mergers and acquisitions market showing no sign of slowing down, providers with high performance on quality measures, scale and size are anticipated to attract investors' eyes. Even as strategic, private equity and non-traditional buyers continue to snap up hospices, those providers are themselves increasingly investing in more diversified assets, such as home health or personal care companies.

Hospice has been riding high in terms of investor interest and valuations, outpacing other health care sectors throughout the last several years running. The number of transactions involving a hospice or home health asset rose 16% during a 12-month period ending May 15, 2021, according to a report from PricewaterhouseCoopers (PwC). Of about 1,300 health care transactions during that period, 95 were hospice acquisitions. These deals collectively tipped past $11.8 billion, reaching record-high valuations as hospice and home health multiples reached 26.2x compared to 16.1x for the overall health care sector, according to PwC.

More non-traditional buyers are in the market for hospices such as search funds, family offices and special purpose acquisition companies (SPACs). Around 250 SPACs have formed in recent years, with 18 expressing investment interest in health care, according to a report from The Braff Group. SPAC interest has been building momentum in health care, growing over the last 10 to 20 years in widespread market investment trends. Home health and hospice care are seen as seemingly "logical routes" for these companies to gain a foothold, according to Mark Kulik, managing director of M&A advisory firm The Braff Group.

However, transactions involving some types of buyers may carry more risk than strategics or private equity, according to Kevin Palamara, managing director of mergers and acquisitions advisory firm Provident Healthcare Partners.

“It’s a very competitive hospice environment right now and we would not probably want to engage with search funds because private equity groups and strategics are all coming in with cash offers or fully-committed financing offers,” said Palamara during a recent Hospice News Elevate podcast. “Search funds certainly have a place in other markets, but right now if you’re a high-quality hospice, it’s a little bit riskier road to go down when you should have many, many more attractive options in front of you.”

Private equity hospice transactions rose nearly 25% between 2011 to 2020, according to The Braff Group, stepping up competition for acquisition targets. In the midst of this activity, a growing number of hospices are making their own new types of investments. Florida-based Alivia Care, for example, recently acquired the home health company Better Life. Financial terms were undisclosed.

One of the larger such transactions occurred when Amedisys, Inc. (NASDAQ: AMED) agreed to purchase Contessa Health, a Tennessee-based company that provides hospital-at-home and skilled nursing-at-home services. Expected close Aug. 11, the $250 million deal was 3.9 times 2022 revenue, compared to 6x for similar companies, and makes Amedisys among the first in the home-based care space to offer hospital or skilled nursing at home on a national scale.

With the pandemic pushing more health care into the home setting, more hospice and home health providers are branching out into skilled nursing facility (SNF) and hospital-at-home services. Hospice and home health provider LHC Group (NASDAQ: LHCG) recently partnered with acute unscheduled care company SCP Health to offer high-acuity services in the home setting.

“What we’ve seen, and will continue to see, is an ongoing set of health care services moving into the home. In most cases, it’s the most cost-effective setting for patients,” said Jake Vesely, investment banking associate for Provident. “With these trends in mind, providers are going to continue to utilize M&A and attempt to capture the entire continuum of care services that are home-based, including end-of-life care. The future for home-based care, including hospice care, is going to be about taking on the high-cost, higher acuity patients.”

Emerging value-based payment models newly available to hospice may also have an impact on M&A, according to Vesely. From a private equity standpoint, investors will be looking for hospices of size and scale. These firms typically have a minimum revenue threshold in order to move forward with transactions.

Providers with significant patient census volumes and a wide geographic reach will see higher valuations, according to Vesely. However, a hospice organization’s operational and workforce structures are also key considerations.

This is particularly true when it comes to staffing, technology infrastructure and data collection.

“Groups that are larger will command a premium multiple, but as you dig a bit deeper what separates groups from one another is if they’ve made investments in their infrastructure. ” Vesely told Hospice News. “All of these are really important as you think about investing into a company with the intention of upscaling it and growing into new geographies. You need to have all of these attributes in place in order to be successful in that — especially as we continue to transition to a value-based care environment. It’s very important that groups have the ability to track data and outcomes.”