After a 2020 beset by the onset and spread of COVID, pent-up acquisition demand, the re-opening of our economy and potential tax incentives, among other factors, led to a banner year for mergers and acquisitions in 2021 across many industries.

According to PitchBook, a market research company that tracks private equity investment activity, “Middle-market private equity (PE) firms sustained the feverish pace of dealmaking activity set earlier this year: 2021’s three-quarter total has already surpassed that of the previous record year in both deal count and value.”

Such was the case in home health and hospice. Based upon proprietary data collected and analyzed by The Braff Group through the third quarter, we anticipate record breaking transaction volume for 2021. At the current pace, deal flow will be up a staggering 22.2% over 2020.

This was due, in large part, to the substantial and growing role of private equity in home health and hospice M&A. As the charts below illustrate, over the past ten years, the proportion of deals completed by private equity has increased from 30% to 50%. Moreover, at the current pace, PE will set a record in transaction activity, up 16.3% from the record set in 2020.

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1 With fourth quarter 2021 transaction data still being compiled, to provide more timely analysis, the data presented in this report is drawn from M&A activity through the 3rd quarter of 2021 which has been annualized to estimate year-end results. While the total figures for 2021 will change, experience suggests that the trends will hold up.
anomalous thinking is likely due to the following. According to PitchBook, total deals completed in 2020 were only down a modest 6% from the year prior. But as the chart below indicates, this was due solely to record breaking activity completed in the fourth quarter. So going into Q1 of 2021, the psychological pent-up demand from such a dismal Q2 and Q3 carried over. Although not as dramatic, we can see that the same pattern emerged in home health and hospice, leading to record deal flow, despite sentiments that suggest otherwise.

Before continuing further, some of you may have noticed that despite the onset of COVID and lockdowns, a dismal economy, and alleged pent-up acquisition demand going into 2021, home health and hospice posted a record level of activity in 2020.

So, what’s going on here?

Our conclusion is that for many industries and sectors, the “down year” in mergers and acquisitions in 2020 was mostly illusory, albeit an allusion that nevertheless fed into the frenzied “rebound” we saw in 2021. The reason for this anomalous thinking is likely due to the following. According to PitchBook, total deals completed in 2020 were only down a modest 6% from the year prior. But as the chart below indicates, this was due solely to record breaking activity completed in the fourth quarter. So going into Q1 of 2021, the psychological pent-up demand from such a dismal Q2 and Q3 carried over. Although not as dramatic, we can see that the same pattern emerged in home health and hospice, leading to record deal flow, despite sentiments that suggest otherwise.
Before we examine each individual segment in detail, consider the “heat map” developed by The Braff Group specifically designed to compare the relative mergers and acquisitions activity levels for each service area.

Along the vertical axis is the total number of transactions completed over the past five years (including annualized results for 2021). Along the horizontal axis is the slope of the trend line over that period. For those of you who remember middle school math, the slope is the “m” in the formula, \( Y = mx + b \). The greater the “m” in the formula, the sharper the slope – in this case, the sharper the rise in transaction volume over the five-year period. Taken together, the highest and furthest to the right a segment is, the greater the acquisition interest in that service area.

In this case, while there may have been more certified home health deals completed during the period, the recent M&A mojo clearly belongs to hospice based upon its volume and particularly strong upward trends.
Consequently, the rebound in 2021 is due in large part to buyers and sellers alike becoming more comfortable with the payment system. We anticipate a strong 2022 as well, especially as the uber-frenzied activity in hospice begins to level off.

Unlike some of the other home health and hospice sectors, certified home health transaction activity was down appreciably in 2020. However, given the initiation of the new PDGM payment model and its uncertainty, we would have seen such a fall-off even if COVID had not become a factor.

As the chart clearly illustrates, hospice mergers and acquisitions has been on an extraordinary run since 2018. We’ve noted in the past that hospice and certified home health M&A often moves in opposite directions, as challenges in one sector drive buyers to the other. As suggested above, such has been the case here as the lead-up to, and initiation of, certified home health PDGM created uncertainty in the market, thereby diverting buyers’ interests toward hospice. After such a sharp rise, however, the pool of acquisition candidates becomes depleted. Add to this the fact that with the impact and management of PDGM becoming clearer, buyers will return to certified home health, siphoning off at least some demand for hospice. Accordingly, we anticipate a modest fall-off of hospice M&A over the next 12-36 months.
Beginning to see hospice providers eye private duty agencies in order to offer a more comprehensive, and cost effective, care model. Also noteworthy is the rise in interest from private equity, particularly in new market-entry platform transactions. With seven platform deals completed through the end of Q3 2021, even without annualizing these figures, there have been more PE platform investments in private duty than in any other home care or hospice segment. If the trends hold up, after two modestly down years in 2019-2020, private duty deal flow will be back to the levels posted between 2016-2018. As we inexorably move towards more global capitated or population-based reimbursement systems, private duty is increasingly being seen as an important tool to monitor patients on a day to day basis to intervene quickly, and seamlessly, as necessary, to tamp down on – or mitigate -- serious recurrence of illness and/or rehospitalizations. What’s more, we are beginning to see hospice providers eye private duty agencies in order to offer a more comprehensive, and cost effective, care model. Also noteworthy is the rise in interest from private equity, particularly in new market-entry platform transactions. With seven platform deals completed through the end of Q3 2021, even without annualizing these figures, there have been more PE platform investments in private duty than in any other home care or hospice segment. The reason? With often more constrained margins and employee turnover, key criteria for buyers entering this market are size, geographic penetration, and the attendant infrastructure necessary to sustain a competitive advantage. Although far fewer in number than the other segments reported above, Medicaid is in its sixth consecutive year of elevated deal flow. It is worth noting that despite the comparatively modest number of total deals, these transactions tend to be substantially larger than other segments.
As we enter 2022, there is every reason to anticipate that home health and hospice acquisition activity will remain robust. All the fundamentals driving acquisition interest remain the same – increased demand and utilization, value in the health care continuum (particularly as it relates to controlling population spend), demographics, profitability, and a relatively benign reimbursement climate (especially as certified home health normalizes after two years of PDGM changes). Moreover, as COVID marches on, investors will continue to eye opportunities in health care, propping up acquisition demand – and valuation. So while we may see some drop off from 2021 due to sellers that may have accelerated their exits for tax purposes, 2022 should be yet another year of elevated activity.