After a 2021 which produced record deal flow in health care services, it was more or less a certainty that we would see a fall-off in 2022. And based on the past two quarters, that’s right where we are.

If we annualize deal volume for the first half of the year, aggregate health care services (home health and hospice, behavioral health care, pharmacy services, health care staffing, and home medical equipment), is running about 21% behind 2021. That said, as illustrated in the accompanying chart, at the current pace, health care services is on track to tally 500 transactions, eclipsing the previous record set in 2020.

Every sector but one is lagging in 2022.

The big winner? No surprise here. Given the extraordinary staffing pressures being felt across all industries – and health care in particular – health care staffing deal flow is running 38% above last year’s record tally.

At the current pace, health care services is on track to tally 500 transactions, eclipsing the previous record set in 2020.
As alluded to above, 2022 figures are difficult to interpret due to the extraordinary deal volume in 2021. To put it in perspective, last year we identified 149 combined Medicare, Medicaid, and private duty transactions, a staggering 20% more than the previous record set in 2018. So, no surprise, if we annualize results through the second quarter, everything is down vs. last year.

However, compared to where we were before COVID reshuffled M&A activity, aggregate home health in 2022 is running essentially even with 2019.

Based upon raw numbers, the biggest contributor to this decline is private duty. While every sector has faced staffing pressures, it is particularly acute with paraprofessionals – the lifeblood of many private duty providers. Accordingly, many would-be buyers and sellers are sitting this period out.

If Medicare certified transaction volume remains at the current pace, 2022 is shaping up to be the second highest tally since 2014.

While Medicaid and private duty activity is down 73.3% and 40.0% respectively, Medicare certified M&A is faring much better with a decline of only 16.7%. Moreover, if transaction volume remains at the current pace, 2022 is shaping up to be the second highest tally since 2014.

This is almost assuredly due to the fact that despite record inflation, rising interest rates, and the unrest in Ukraine – all
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of which are factors in the fall-off in transaction volume across all industries (health care and otherwise) - with the impact of PDGM fully realized, the risk profile for home health heading into 2022 was arguably at its most favorable in nearly three years.

At least until CMS announced its proposed rule calling for a net 4.2% reduction in reimbursement in 2023.

We'll have to wait and see how buyers and sellers navigate this uncertainty. That said, we are cautiously optimistic that the clinical and economic benefits of pushing more and more services into the home under capitated and other population-based payment systems will be enough to offset this unknown.

With the impact of PDGM fully realized, the risk profile for home health heading into 2022 was arguably at its most favorable in nearly three years.

Hospice

The story is a bit different in Hospice.

Through the first half of 2022, deal volume in the space is trending down 46.3%.

Hospice Deal Trends

Source: The Braff Group

We suspect that this is due to three factors:

1. After any rapid run-up in deal volume, as was the case in hospice between 2018 and 2021, we often see a fall-off in transactions as the pool of available acquisition candidates becomes more limited.

2. CMS’s rollout of the Medicare Advantage (MA) Value-Based Insurance Design (VBID) which provides for a managed care hospice benefit has created sector concerns regarding reimbursement.
3. Transaction activity in home health and hospice tend to move in opposite directions, i.e. acquisition interest in home health tends to draw away from hospice, and vice versa.

So, in the run-up to and implementation of home health PDGM, some portion of acquisition demand shifted from the certified space toward hospice.

But now with PDGM more fully understood, buyers are moving back to home health, drawing at least some attention from hospice (especially in combination with 1 and 2 above).

The good news is that despite the fall-off in hospice deal flow, acquisition demand remains robust. We are however, beginning to see some early signs of pricing pressure. Stay tuned.

Private Equity

After gorging on deals in 2021, a slow-down from private equity going into 2022 was predictable. That said, an aggregate 44.7% run-rate fall-off of platform and follow-on deals in home health and hospice is more than what we would have anticipated.

Drilling down, we can see that the biggest contributors to this (in raw numbers) are private duty and hospice.

With sector-wide declines in revenues, we get the decline in private duty.

It’s the drop in PE sponsored deals in hospice that seems off. Sure, the pool of acquisition candidates is shallower and the introduction of hospice benefits in Medicare Advantage is a tad worrisome. But a 55% plunge? When, as alluded to above, buyers continue to engage whenever we bring a new hospice client to market? It will take another quarter or two to determine whether this is a trend that needs to be analyzed further, or merely an anomaly. Our bet is it’s the latter.

On the positive side, it’s worth noting that market entry, new platform transaction activity in certified home health is running slightly ahead of last year -- 10 on an annualized basis vs. 9 last year.

It’s worth noting that market entry, new platform transaction activity in certified home health is running slightly ahead of last year – 10 on an annualized basis vs. 9 last year (not shown on graph). This is particularly noteworthy as platform activity is often a leading predictor of what we may see over the next 12-24 months.
As suggested above, the emergence and adoption of various global payment systems including capitated agreements, episodic or bundled payments, accountable care organization designs, etc., have focused attention on home health and hospice as a key component to providing high quality, lower cost care. As a result, the breadth of acquisition demand is extraordinary. Hospitals, physician groups, conveners, insurance companies, adjacent providers, and those already in the space are all prospective – and active – buyers.

So, while we don’t expect another 2021 any time soon and we may see temporary lulls in certain sub-segments, we remain extremely bullish on home health and hospice M&A for the balance of 2022 and the ensuing 12-24 months.

Outlook
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20 Years & Counting

The Braff Group is the leading mergers and acquisitions advisory firm specializing exclusively in health care services, including behavioral health, home health, home care and hospice, home medical equipment, pharmacy services, staffing services, 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 375 transactions. According to Refinitiv, The Braff Group has repeatedly been ranked among the top 5 health care mergers & acquisitions advisory firms.

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