Dexter Braff
President
The Braff Group

In this Voices interview, Home Health Care News sits down with Dexter Braff, President, The Braff Group, to learn about today’s market for mergers and acquisitions in the home-based care environment. Dexter also shares his outlook for the near term for M&A, as well as insight for owners — including what not to do in a competitive M&A landscape.

Editor’s note: This interview has been edited for length and clarity.

The Braff Group is a mergers and acquisitions advisory firm specializing exclusively in health care services including home health, home care and hospice, behavioral health, health care staffing services, home medical equipment, pharmacy services, urgent care, digital health and ancillary health care services. To learn more, visit www.thebraffgroup.com.

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Dexter Braff: This is going to sound trite, but it’s true — it’s all of them. There are so many factors that impact a deal. There are so many ways that they can get enhanced, that they can get derailed. There are so many ways negotiations can improve an offer or stall it indefinitely. There’s so much nuance out there that can spell the difference between a good deal and a great one.

It’s the sum total of all of these years of experience that my managing directors and I have that enables us to know what to do when things almost inevitably go awry. The best thing I can liken it to is the old Farmers Insurance commercial: We know a thing or two because we’ve seen a thing or two. There’s just a body of knowledge and experience that enables us to do the job in a way that we wouldn’t be able to do as well if we hadn’t seen so many different things that impact a deal.

Q: Home Health Care News: Dexter, what career experiences do you most draw from in your role today?

Braff: We do our numbers on a quarterly basis so this reflects what we know through the second quarter. One of the things that’s very interesting is that it’s really, really hard to look at 2022 and compare it to 2021, which was a breakout year in mergers and acquisitions across the board, forget just health care services.

The amount of deals that were done in 2021 versus any other time prior to that is greater than we’d ever seen. That was for all industries including the aggregate of Medicare, Medicaid, and private duty transactions. Compared to the previous record that was set in 2018, 2021 was up a remarkable 20%. As we headed into 2022, no one expected that we would be at the same level as last year.

And such has been the case. They’re down about 30% if we annualize the results for the first half of the year. That said, if we looked at 2019 as the last year that had not been impacted by COVID, we’re running basically even versus that period. The biggest mover on the positive side is the Medicare-certified space, which, if we use 2019 as a base year, is up about 15%. That has to do with the implementation of the Patient-Driven Groupings Model (PDGM).
**Q: Home Health Care News:** What are the top two to three ways in which PDGM has impacted home health M&A?

**Braff:** It’s really two things, and one is the opposite of the other but they’re critically important. As we were moving into 2020 towards the back half of 2019, we knew, and expected Medicare-certified deal activities to slow because we were going to have two years of these changes brought about by the PDGM model. Activity in Medicare-certified deal flow was hampered because buyers were concerned about what the numbers would look like in 2020 with the first round of PDGM changes.

Then there was the second round of PDGM changes in 2021. That uncertainty, which lasted for the better part of two years, is something that creates a higher risk for buyers. It’s not that they didn’t want to buy — and they still were buying — but it takes a little bit of the wind behind that sector away. Interestingly enough, part of the reason why hospice dealmaking accelerated during those two years of PDGM was because buyers redirected their interests from Medicare-certified home health to hospice.

We often see this interplay between home health and hospice, by the way. When one is up, the other one tends to be down and vice versa. Regardless, as we got toward the end of 2021, we began to see an increase in activity in the Medicare space because the fear of PDGM was now gone. It was fully baked in by mid-year. In fact, you could make the argument that by the middle of 2021, the risk profile for Medicare-certified home health was arguably the most attractive that it had been in three or four years.

At least until CMS announced their proposed cuts.

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Q: Home Health Care News: What are the top two to three most urgent threats to the health of the M&A landscape in home health?

Braff: There are a couple that really stand out. A rising interest rate environment has a way of tamping down on all M&A and that would be the same with respect to home health care. The next biggest issue, or the biggest issue specifically in the home health space is staffing. The ability to have caregivers actually filling the visits and the roles that generate revenues. As we know, it’s a terribly difficult environment.

That’s probably the greatest limiting factor not only to growth but toward how buyers look at the M&A environment going forward and what they can expect in the future.

Then we have the pending rate cuts. It will be interesting to see how buyers interpret the proposed 4.2% cuts. Although I don’t necessarily expect this, we could find ourselves in a situation where on the Medicare side, buyers and sellers run into somewhat of an impasse. I still expect deals to get done and I still expect them to be attractive, but I think that there’s going to be a little trepidation in the back half of this year until those rate cuts are settled.

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Q: Home Health Care News: What advice do you have for the owner of a home health or home care agency if they’re thinking about selling?

Braff: There really is something fundamental — before you even start talking about anything in detail around how you prepare for a sale. If you’re an owner and you’re thinking about selling, the most important thing you have to be aware of is to not respond to an unsolicited query.

There is hardly a provider out there in the current marketplace or in the marketplace of the last 10 years that has not at one point or another been approached by one or more buyers saying, “Hey, would you be interested in selling?” That’s very, very common. We like to say that the six most dangerous words for a provider when they’re being asked if they’re interested in selling is, “What do I have to lose?” The reality is that buyers are highly motivated to get deal flow that’s proprietary.

In other words, in this scenario they’re the only buyer looking at a transaction, so that the seller doesn’t go out and test the market. The way they do it is by contacting prospective companies and saying, “Hey, we’re interested. What do you think? Can we take a look at your numbers?”

What the seller has to lose is that they start getting drawn into the process without having the benefit of being able to A, be prepared to show their business in the most attractive light; and B, be in a situation where they can begin to compare offers from other buyers.

By the way, this isn’t a criticism of how buyers go about buying. Their job is to pay as little as possible. It’s the sellers’ job to maximize price.

One of the things that sellers don’t normally believe is that everybody doesn’t pay the same amount for a company. We routinely see offers from buyers that can easily range as much as 50% to 75% between the high and the low. Not responding to a query until you’re ready, and then going at the market in a more comprehensive way is probably the most important thing a seller has to bear in mind when they’re fielding these calls, which they no doubt are fielding right now.
Q: Home Health Care News:
All things considered, what are your expectations for home health M&A activity over the next 12 months to 36 months?

Braff: You’ve got to look at why there’s activity in the first place. Why have we seen a rise in activity overall in the home care space, including hospice? It’s because under these global payment systems, capitated payment arrangements, and accountable care organizations, people are trying to combine services from multi-disciplines in order to be able to provide the best care at the lowest cost. Now there’s a real financial incentive to do that under these global payment systems because if I can provide high-quality services at a lower cost, there’s more margin to keep.

Home health is a crucial element towards reducing costs and maintaining quality. That’s why we see so much expanded activity. While we’re not going to see the kind of numbers we saw last year, we’re going to see continued robust activity throughout 2022 and 2023. I think the biggest mover is going to be home health, if buyers and sellers can get comfortable with the potential rate cut.

We remain bullish on the space. We’re very excited about it. We fully expect to see activity to be very, very attractive over the near and mid-term.

Q: Home Health Care News:
Finish this sentence. “The top strategy that home-based care providers should employ for the remainder of this year to best prepare for next year is…”?

Braff: Focus on the little things that can keep your caregivers engaged and motivated: personal notes, gift cards, professional development, company gatherings. The biggest challenge in being successful over the next 18 months is going to be having the staff to provide the services. The pay rate is important, but it’s not always the most important thing. It’s those little things that communicate to people if they’re valued or not, and those are the things that can differentiate you as a provider from someone else.

Focusing on those caregivers at the line level and doing whatever you can to give them a successful experience is going to enable you to keep those caregivers and fulfill those opportunities that become available to you in the next two or three years.