After a remarkable 2021 which produced record deal flow in the US across all industries, the prevailing wisdom was that we would see a substantial drop off in deal flow in 2022. Well, based upon annualized results through the 3rd quarter, there has been a fall-off in the volume of deals completed, but only a modest 4%. More importantly, 2022 results are still running far above the previous records set prior to the onset of COVID.

Where we have seen a more meaningful decline is in the average value per transaction. As illustrated in the chart below, since the 3rd quarter of 2021, we’ve seen a relatively steady fall-off in this measure. That said, this is exactly what we would expect in an unsettled market characterized by high inflation, rising interest rates, a flagging economy, and the unrest in eastern Europe. Buyers will still make acquisitions in uncertain times, but they tend to make smaller bets to curb their exposure.
Unlike the broad markets overall, we have seen a more meaningful – and fully anticipated – dropoff in deal flow.

If we annualize deal volume for the first half of the year, aggregate health care services (health care staffing, home health and hospice, behavioral health care, pharmacy services, 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 pre-2021 record set in 2020.

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One Exception

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 25% above last year’s record tally.

Health Care Staffing

Due to the COVID-inspired unprecedented shortage of health care service providers, demand for temporary workers has surged to levels never seen before – and is unlikely to return to pre-pandemic levels anytime soon. No surprise then that health care staffing continues to notch extraordinary M&A volume. Based upon proprietary data collected and analyzed by The Braff Group, at the current pace, the sector is on track to post more than 60 transactions. Moreover, of all the health care service sectors we cover, M&A activity in staffing is far and away the fastest growing.

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Private Equity

If we examine the numbers more closely, we can see that the surge is largely being driven by private equity. Perhaps even more interesting, in 2013 and 2014, non-PE strategic acquirers accounted for 80% or more of the staffing deals completed over the period. Through Q3 of 2022, that number has shrunk to 32% as PE has rushed into the space.
Outlook

The shortage of health care providers was a problem before the pandemic. According to the Bureau of Labor Statistics, in March of 2020, immediately prior to the wave of COVID that washed over this country, the gap between open positions and new hires was just under a half million. At its peak, that gap swelled to more than 1.3 million. But with COVID cases slowing, expectations were that this gap would begin to shrink.
And according to the data, it has.

As illustrated in the accompanying chart, the latest projection by the BLS is that as of August 2022, the gap stood at 885,000, the lowest level since August of 2021 (848,000). Still more than 75% greater than pre-pandemic levels, but better.

The question is whether this trend will hold, especially as (a) the cold weather and new strains of COVID conspire to drive up demand for caregivers, and (b) hospitals that may have abruptly and prematurely mandated reductions in staffing utilization reluctantly find it necessary to bring some of these workers back. Interestingly, inflation may be part of the reason the gap has narrowed as nurses on hiatus may be returning to work, at least for now, earlier than they may have planned. We’ll be watching this closely.

So, with providers possibly beginning to see reductions in revenues and profits, you might think that M&A activity may fall accordingly.

It may, but not for this reason.

In fact, if health care staffing requirements stabilize to a new normal, we may see a rise in dealmaking as buyers and sellers gain confidence in go-forward performance. Such confidence lowers perceived risk, which increases attractiveness -- and valuation.

Given all the above, we remain extremely bullish on the space.

Of particular interest for buyers are allied and locum tenens firms, as hospitals want to avoid losing revenues that are often dependent on these positions being staffed. That said, we do anticipate some slow down in 2023. Not because demand for providers will wane. Rather, we have repeatedly seen a pattern in which the pool of acquisition candidates ready for sale shrinks substantially following a rapid acceleration of deal flow (as is certainly the case in staffing). Accordingly, it’s not uncommon to see a temporary lull in dealmaking while firms mature and gain the kind of critical mass that can yield market premiums in the future.
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, health care 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.

- Behavioral Health
- Home Medical Equipment
- Home Health, Home Care, and Hospice
- Health Care Staffing Services
- Pharmacy Services
- Ancillary Services