Voices

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In this Voices interview, Hospice News sits down with Mark Kulik, Senior Managing Director, The Braff Group, to learn how the HHA and hospice M&A landscape is shaping up for 2022 heading into 2023. He discusses the impact of the recently announced CMS rate cuts, and he also breaks down the key steps providers should be taking if they are looking to sell in today’s marketplace.

Q: Hospice News:
What career experiences do you most draw from in your role today?

Mark Kulik: Truthfully, all of them. I started out at a company called American Hospital Supply Corporation back in the 70s when hospitals were the center of all health care. At that time, the company was predicting home care would be the future — obviously, they were right.

Later, I accepted a position with a home medical equipment business called Apria, and I eventually moved to a company that sold software to home health, hospice and home medical equipment businesses. From there, I moved on to a corporate development function for a national public home health care provider. Serendipitously, I got wonderful experience on the provider side that led me to where I am today with The Braff Group. I’ve been here for about 14 years, and I constantly draw from those experiences, which allowed me to see hundreds of agencies up close.

I’ve witnessed the good, the bad and the ugly relative to how agencies operate and provide service. That has been invaluable because I’m highly confident that I can best represent my clients since I’ve been in their shoes. I’ve operated home health care and software companies, and I’ve experienced the same challenges. In fact, history repeats itself.

The last couple of years have obviously been monopolized by the pandemic — and before COVID we dealt with AIDS. I was running a home medical equipment business back in the 80s and AIDS

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was at the forefront of everyone’s minds. Learning how to run a business in the face of a massive global change has proven invaluable because I can relate to the struggles of business owners and leadership today.

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**Q: Hospice News:**
Through Q3, how is 2022 shaping up for HHA and hospice M&A?

**Kulik:** Clearly, we’re below the record level of transactions that occurred in ’20 and in ’21. Last year, there were 82 home health deals completed for an all-time record. While home health is down 26% or so on a projected basis versus the prior year, the third quarter is up 25% from the second quarter. There’s some positive trending going on in the back half of the year.

It’ll be very hard to come close to last year’s numbers, especially after, the negative 4.2% rate change was announced. The proposed rule put a pause on things, but now that it’s resolved, I think, we’ll finish up with around 65 home health transactions. While that’s lower than last year, it does put us on par with pre-COVID levels and the 2017-2018 timeframe on a relative basis.

According to our proprietary database, there were 67 transactions on the hospice side in 2021, and no one really expected it to surge as it did when the pandemic hit. As of Q3 this year, we’ve recorded 28 closed transactions, and that projects out to about 40 transactions taking place in 2022 come December 31st — clearly off the torrid pace of the last couple of years. That said, after back-to-back record years, we expected a drop in home health activity because of COVID and the introduction of PDGM, but 2022 will still be considered a strong year.

I think we’re going to see continued challenges of labor issues that would otherwise suppress more rapidly growing home health and hospice industries. Once we have some labor stability and things return to “normalcy,” I think we’ll see the home health and hospice industries pick back up with accelerated growth beyond 2023.”

**Q: Hospice News:**
Now that CMS has announced the new rates for 2023, what do you expect the 2023 landscape to look like?

**Kulik:** The rate cut was a surprise to most, including me. I was pleasantly surprised that the final rule was, although very small, a positive increase. The macro forces for home health and hospice remain very strong, and we now have clarity of reimbursement in both sectors.
Q: Hospice News:
How has completing an M&A transaction changed during the past 10 to 15 years?

Kulik: It has gotten immeasurably longer, broader and much more granular. I think in large part, we’ve become a victim of our own success. I say that because buyers have been pressed to offer superlative valuations, and they are also understandably demanding of the most pristine conditioned agencies. They want to buy the perfect agency if they’re going to pay the highest possible price.

Buyers are looking for referral source diversity, employee stability, certainty, accurate financial statements and KPI tools, and extraordinarily tight compliance. Additionally, they want experienced leadership. If I had to roll all of those criteria into one characteristic, I would say that company culture is paramount from the buyer perspective.

Ten, fifteen years ago, most buyers were hunting for acquisitions with a shotgun. Today, I would say most buyers are using a rifle. They’re looking at specific marketplaces, specific geographies and specific MSAs. They really have a clear set of criteria for where they’re looking to make an acquisition, and that’s based upon the current footprint they’ve developed and the best opportunities for them relative to the US population.

Moving forward, there’s naturally going to be a fewer number of available agencies that can check all those boxes.

Every provider wants the highest price and the shortest process when it comes to selling their business. That means owners should put in a very strong effort to prepare for that process. I emphasize “process” because owners need to look at it as a process, not an event. Most owners think, “I sell my business, that’s it,” but there’s a lot of work that should be done beforehand. It is imperative that sellers think like a buyer before going to market and look for three dominant things: profitability, growth and risk minimization.”
Q: Hospice News:
From the seller’s perspective, what should owners keep in mind if they intend to sell their business during the next 12 to 24 months?

Kulik: Again, every provider wants the highest price and the shortest process when it comes to selling their business. That means owners should put in a very strong effort to prepare for that process. I emphasize “process” because owners need to look at it as a process, not an event. Most owners think, “I sell my business, that’s it,” but there’s a lot of work that should be done beforehand. It is imperative that sellers think like a buyer before going to market and look for three dominant things: profitability, growth and risk minimization.

I encourage every buyer to take a look at their own business critically and do their own due diligence prior to starting the process. Most importantly, buyers are purchasing an assembled workforce — sellers must make certain that employee satisfaction and retention levels are as high as possible.

Q: Hospice News:
What most notable changes have you seen from buyers during the past dozen years or so?

Kulik: The most noticeable change has been the interest level and participation by private equity. This has kind of been a quiet story, but private equity has been responsible for about 40% of all home health transactions in 2021, and about 73% of all hospice transactions in 2021. There has not been much coverage, but I think it’s a surprise compared to past trends where strategics were the common buyer in the marketplace.

In 2022, our projection is that about 44% of home health transactions will be due to private equity, and about 50% on the hospice side. I think private equity sees home health and hospice at an inflection point, and there’s an opportunity to step in and drive the movement toward assumed risk and value-based care, facilitating a shift toward “hospital at home” or “SNF at home” delivery of care. I think that’s where their interest level has occurred, and we’ve seen it reflected in activity over the past three years.

Q: Hospice News: Finish this sentence:
The top strategy that care providers should employ in 2022 to best prepare for 2023 is…

“Keep employees happy and engaged, and continue focus on recruitment and retention going forward.”