In our 2022 year-end M&A updates, we surmised that 2023 would be a down year across virtually all health care services sectors and segments. Be it rising interest rates, sustained inflation, high labor costs, continued unrest in Eastern Europe, potential changes in reimbursement, and unknowns regarding the ending of the public health emergency, the headwinds that began blowing in 2022 remained too strong to stave off another down year.

Well, the first quarter 2023 numbers did nothing to dispel these predictions.

As illustrated in the chart below, annualized results for 2023 are down 32% vs. 2022, a 2022 that was also down 23% vs. the prior year.
If we examine the numbers on a quarterly basis, it's clear that this is a sustained trend that began in the first quarter of 2022.

With private equity being such a major player in health care services M&A, it comes as no surprise that investment trends mirror the market as a whole (see below for more on PE).

Despite all the above, if you go to the Outlook section at the end of the report, you'll see five specific reasons to be optimistic.
That said, the size of the transactions has been declining more or less steadily over the past seven quarters, suggesting that private equity’s response to some of these same headwinds is reflected more in a falloff in financial commitment to deals vs. volume.

The Broad Market

If we look at the broad markets, the directional change is similar, but far less pronounced.

US PE Deal Flow Across All Markets

Source: PitchBook

*Includes estimates

US PE Activity Across All Markets: Avg. Value Per Deal

Source: PitchBook

*Includes estimates
We should point out that the broad market PE figures contain estimates for the past three quarters. Given the “hunker down” sentiment that we’ve witnessed at numerous investor conferences we’ve participated in over the past six months, we would not at all be surprised if the modestly downward trends become a bit more pronounced as the actual numbers come in.

A Few Bright Spots

As down a quarter as it was, there were a few segments that held up well.

**Best Performing Segments vs. 2022**

*Source: The Braff Group*

<table>
<thead>
<tr>
<th>Year</th>
<th>Non-Residential SUD</th>
<th>Autism</th>
<th>Home Medical Equipment</th>
<th>Mental Health</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>3</td>
<td>11</td>
<td>61</td>
<td>40</td>
</tr>
<tr>
<td>2015</td>
<td>7</td>
<td>10</td>
<td>47</td>
<td>38</td>
</tr>
<tr>
<td>2016</td>
<td>11</td>
<td>13</td>
<td>41</td>
<td>29</td>
</tr>
<tr>
<td>2017</td>
<td>10</td>
<td>19</td>
<td>52</td>
<td>35</td>
</tr>
<tr>
<td>2018</td>
<td>12</td>
<td>38</td>
<td>71</td>
<td>38</td>
</tr>
<tr>
<td>2019</td>
<td>13</td>
<td>46</td>
<td>64</td>
<td>46</td>
</tr>
<tr>
<td>2020</td>
<td>4</td>
<td>41</td>
<td>72</td>
<td>56</td>
</tr>
<tr>
<td>2021</td>
<td>14</td>
<td>43</td>
<td>80</td>
<td>82</td>
</tr>
<tr>
<td>2022</td>
<td>12</td>
<td>40</td>
<td>42</td>
<td>64</td>
</tr>
<tr>
<td>2023</td>
<td>12</td>
<td>36</td>
<td>40</td>
<td>68</td>
</tr>
</tbody>
</table>

**Mental health**, the breakout segment over the past 18 months continues to put up impressive numbers with 17 deals in Q1 2023, which, on an annualized basis, would surpass results posted in 2022.

With all the noise in the **autism market**, most notably the faltering of several high-profile consolidators over the past year or so, the segment continues to demonstrate remarkable resiliency.

While still below the levels we would anticipate as more and more health care services move from costly institutional to community-based settings, **non-residential substance use disorder** deal flow remains steady.

Lastly, after a particularly down 2022, if the current trend continues, the **home medical equipment** sector shows signs of stabilizing. Even more notable, **there were three market-entry private equity platform transactions completed in Q1 compared to five in all of 2022**, demonstrating once again a phenomenon we’ve been reporting over the past 10-15 years. PE’s on again, off again interest in the space.
Outlook

First off, if you’re a prospective seller, step away from the ledge.

In nearly all the sectors that saw substantial M&A growth between 2019-2021, the fundamental reasons buyers were interested in the space largely remain the same.

The simple fact is you can’t have such a frantic 2021 without a sedate 2022 and 2023.

And that’s before you add the external macroeconomic conditions alluded to above to the mix.

Moreover, it’s just the first quarter, and there are sound reasons to anticipate an increase in activity toward the back end of the third quarter through the fourth quarter:

- **Inflation rates continue to fall.** With the inflation rate falling steadily from a peak of 9.1% in June of 2022 to 4.9% in April 2023, the Fed has signaled that the 10th rate hike earlier this month may be the last for the time being. Not only will this boost investor confidence, but it will also likely trickle down to reduced borrowing costs.

- **The post-PHE landscape becomes clearer.** With the public health emergency ending on May 11th and regulatory bodies finalizing the extent to which some or all of the relaxed billing, compliance, and eligibility guidelines will continue, the post-PHE landscape will become clearer, putting an end to lingering unknowns that have plagued buyers’ evaluation – and pricing – of certain acquisition candidates.

  Notably, flexibilities regarding government coverage of telehealth have already been extended through the end of the year, and legislation was recently re-introduced in the House of Representatives to waive the requirement that beneficiaries receiving telehealth must be seen by a physician within six months of the initial virtual visit for mental or behavioral health matters.

- **The pressure for PE buyers to buy will increase.** With the slow-down in private equity sponsored investments now in its 5th quarter (see chart above), the pressure for private equity to get back into the game and put sidelined capital back to work will increase throughout the year.

- **Post-COVID financial performance continues to improve.** According to Macrotrends, its aggregate Health Care Services Group has seen downturns in virtually every financial measure in the wake of the pandemic. But over the past six months, many of those metrics have begun to tick upwards, which may re-instill confidence in go-forward performance and bring previously distracted buyers back into the market.

- **Potential cuts in Medicare certified home health reimbursement rates will be finalized.** Sometime likely in Q3, CMS will finalize any additional rate reductions in Medicare certified home health that were delayed in 2022. Even if those cuts, if any, are more than anticipated (within reason), the added market certainty should fuel an increase in deal flow in Q4.

Watch this space.

---

¹Macrotrends: https://www.macrotrends.net/stocks/charts/HCSG/healthcare-services/ebitda (This will take you to EBITDA data, one of many categories of metrics that underlie this bullet point.)
Our Industry Experts

Dexter Braff
President
Pittsburgh

Nancy Weisling
Senior Advisor
Chicago
888-290-7237
mweisling@thebraffgroup.com

Mark A. Kulik, M&AMI
Senior Managing Director
Home Health, Home Care, and Hospice
Atlanta
888-922-1838
mkulik@thebraffgroup.com

Steve Garbon
Managing Director
Behavioral Health, Health Care Staffing Services
Pittsburgh
412-833-8690
sgarbon@thebraffgroup.com

Deirdre Stewart
Director of Research & Development
Pittsburgh
412-833-1355
dstewart@thebraffgroup.com

Barrett Kulik
Associate
Home Health, Home Care and Hospice
Atlanta
412-819-1177
bkulik@thebraffgroup.com

Ted Jordan
Managing Director
Behavioral Health
Florida
888-290-7080
ajordan@thebraffgroup.com

Pat Clifford
Managing Director
HME, Pharmacy Services
Chicago
888-922-1834
pclifford@thebraffgroup.com

Mark A. Kulik, M&AMI
Senior Managing Director
Home Health, Home Care, and Hospice
Atlanta
888-922-1838
mkulik@thebraffgroup.com

Deirdre Stewart
Director of Research & Development
Pittsburgh
412-833-1355
dstewart@thebraffgroup.com

Michael Koziak
Director of Finance
Pittsburgh
412-595-5506
mkoziak@thebraffgroup.com

Rick Miller
Director of Finance
Pittsburgh
412-283-0080
rmiller@thebraffgroup.com

Lauren Bonaccorsi
Business Development
Pittsburgh
412-595-2013
lbonaccorsi@thebraffgroup.com

Kristin Mageras
Business Development
Pittsburgh
412-283-0052
kmageras@thebraffgroup.com

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

The Braff Group
1665 Washington Road, Suite 3 and 4
Pittsburgh, Pennsylvania 15228
888.922.5169
thebraffgroup.com