We’ve previously reported that the mergers and acquisitions market has been in a prolonged slowdown since the end of 2022. Early in the year, we were cautiously optimistic that we might begin to see the beginnings of a rebound in the second half of 2023. But with the Fed not ruling out additional rate hikes and fears of a recession, though less acute, nevertheless lingering, buyers are still largely playing it safe by not playing at all.

Based on proprietary data collected and analyzed by The Braff Group, Q3 health care services mergers and acquisitions volume was pretty much a repeat of Q1 and Q2, well off the numbers recorded from Q3 2020 through Q4 2022.
If deal flow continues at the current pace through the end of the year, health care services will tally its lowest volume since 2013. But if you’re a prospective seller, step away from the ledge.

There are lots of reasons to be optimistic about 2024.

- The fundamental reasons why buyers have targeted health care remain the same
- The Fed is likely nearing the end of its near-uninterrupted string of rate increases
- Institutional loan volume is approaching pre-pandemic levels
- Some strategic buyers can use cash or legacy credit at lower costs of capital to fund deals
- Private equity is sitting on $800B in committed capital that must be put to work
- On the behavioral health front, $56B in opioid abatement funding will be distributed over the next 10-20 years and relaxed rules regarding qualifying for telehealth have been extended through 12/31/24
- On the home health and hospice front, support appears to be building to eliminate reimbursement cuts proposed by CMS for Medicare certified providers, and hospice received a 3.1% increase in rates
- Most importantly, current market conditions notwithstanding, in low volume markets, the most attractive firms can still command market premiums

So, if you’re contemplating an exit, there’s no harm in sitting tight. Better yet, take this opportunity to do the things most sellers don’t do, but regret later. Prepare. Prepare. Prepare. See The Braff Report, Mid-Year Update, for a list of items to check off to maximize price, keep it from falling during due diligence, and increasing the likelihood you’ll actually close (which is getting tougher than a Great Dane’s chew toy).

Sector Specific Data and Additional Graphs

Perhaps the most important thing to note in the data that follows is the overall consistency of the patterns among the sectors. A quiet Q2 2020 when COVID struck. A pick-up in deal flow in the third and fourth quarters of 2020. A remarkable 2021 fueled by cheap debt, pent-up demand, and the emergence from lockdowns. A strong start to 2022, due in part to overhang from 2021. And a fall-off towards the end of 2022, and even a bigger pull-back in 2023, due to inflation and an increase in interest rates to tamp it down. Moreover, this pattern is not constrained to health care services. In fact, the same can be seen in the total value of deals completed globally across all industries. So, while there may be sector-specific developments that tweaked the numbers, it is the macro environment that has driven much of what we are currently seeing in the health care M&A market.

The one notable exception? Health care staffing, which saw fundamental and sustained changes in utilization and pricing as a direct result of the pandemic, and was more than enough to buck transaction headwinds.
Private Equity Investment Trends in Health Care Services
Source: The Braff Group

Home Health Deal Trends
Source: The Braff Group
Behavioral Health Deal Trends
Source: The Braff Group

Home Medical Equipment Deal Trends
Source: The Braff Group
Health Care Staffing Deal Trends
Source: The Braff Group

Pharmacy Services Deal Trends
Source: The Braff Group

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