In this Voices Interview, Home Health Care News sits down with Kris Novak, Managing Director, Home Health, Home Care and Hospice, The Braff Group, to share the lessons he’s learned as a buyer of home health and hospice agencies that every seller should know. He breaks down the best approach to M&A opportunities in the home care space, and he discusses key practices for this process through the buyer’s lens.

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 behavioral health, home health, home care and hospice, health care staffing services, home medical equipment, pharmacy services and ancillary health care services. To learn more, visit thebraffgroup.com/market-sectors/home-health-hospice/

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Kris Novak: I joined the Braff Group at the start of August and am excited about this entrepreneurial role aimed at helping sellers achieve optimal outcomes. Previously, I was with Amedisys for 14 years, primarily focusing on mergers and acquisitions. As the senior vice president in charge of all inorganic growth for the last eight years, my team and I completed over 50 acquisitions, adding 325 locations, and deployed roughly $1.5 billion in capital. This effort doubled our hospice services, introduced personal care, and added Contessa, our hospital-at-home service. My responsibilities also covered start-ups, adding over 50 locations and ensuring their smooth integration with our operational leadership. Additionally, I was involved in a few divestitures at Amedisys, which included selling our personal care division in early 2023.

Q: Home Health Care News: Briefly describe your experience as the head of acquisitions for Amedisys.

Novak: When there’s no advisor, deals often fetch lower valuations because the buyer can exert more control outside of a competitive process. This not only influences valuation but also the deal’s terms and timing. That flexibility allows buyers to adjust the diligence timing based on market activity, regulatory shifts, and integration capacity.

This can be disadvantageous for sellers, sometimes leading to prolonged timeframes and deal fatigue. It’s important to understand that this is a strictly regulated business. Delays are never in the seller’s favor. Aside from a buyer’s intentions, issues such as third-party audits, key employee departures or regulatory changes can arise, affecting the deal’s outcome. The latter half of 2022 stands as a testament to how quickly the broader environment can shift.
Q: Home Health Care News:
What are the most critical mistakes sellers make when they go down the acquisition path with a buyer who initiates contact?

**Novak:** Sellers often struggle to present their best story, making them more reactive. This increases the risk of adjustments in price or terms. If financials aren’t properly vetted, it gives the buyer full control over their interpretation. Subtleties in accounting, like revenue recognition or accruals for bad debts, can be presented in a way that benefits the seller if they’re informed and prepared. If not, a buyer can tilt these details in their favor.

This gap in knowledge often poses challenges for sellers in a direct process. They receive a single perspective on their business’s value, not understanding the broader market’s view. A competitive approach would give a clearer picture. Plus, there’s uncertainty about whether a buyer will stick to their initial terms or timing, placing the seller at a disadvantage. Lastly, time spent in prolonged processes could have been better utilized focusing on business growth, presenting an opportunity cost for sellers. If terms change or prices get renegotiated, sellers might end up wasting significant time they could have invested elsewhere.

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Q: Home Health Care News:
As a buyer, how did you determine how much you were willing to pay for an agency? Did this differ if you were competing with other buyers? If so, how?

**Novak:** Valuation methods tended to be consistent, relying on analyses like discounted cash flow analysis, market comps based on revenue and EBITDA, and census multiples. Our first step was to determine the maximum value we’d attribute to a business, considering the return benchmarks set by our leadership and board. However, our bidding strategies varied.

In competitive scenarios, our initial bid might hover around 90% of our highest valuation, with room for negotiation. At times, we’d adjust some foundational assumptions in our models, such as projected growth or potential synergies. In direct deals where we weren’t competing against other buyers, our opening bid often started closer to 80% of our top valuation. With this additional valuation “cushion,” there was also less need to revisit and tweak our assumptions to align with our minimum return goals.
Q: Home Health Care News: In your role as a buyer, you’ve probably looked at hundreds of acquisition candidates. Besides size, price, and service line or geographic fit, what tangible and intangible attributes were the most important in differentiating between deals that would be most or less important to Amedisys?

Novak: Adhering to regulatory compliance and maintaining impeccable documentation was essential. Even with well-established organizations that utilize advanced technology, we sometimes unearthed minor issues related to documentation or processes that might pose a compliance risk. Given the heavily regulated nature of our business and intricate documentation standards, it’s often not a matter of fraud, but rather minor errors or omissions that can often be easily rectified. That said, especially considering the Medicare look-back period, it can be time-consuming. Therefore, in order to both maximize price and the likelihood of a successful close, the best-prepared sellers address these issues well before they bring their company to market.

Organizations should also ensure that their financial reports, tax records, licensure and accreditation are in order from the outset. Another intangible we looked at was the way an organization harnessed technology and how it aligned – or didn’t – with our approach. We also considered the potential challenges employees might face during the integration phase, so the organization’s culture was carefully scrutinized. While assessing culture can be tricky, we tried to understand the organization’s core values, especially their commitment to patient care, outcomes and support to clinicians.

A savvy seller should be tracking key performance indicators (KPIs) that encompass quality, patient satisfaction, employee retention and recruitment. They might also gauge engagement through employee surveys. Ultimately, these factors influence the certainty of a deal. It’s mutually beneficial to ensure a smooth diligence process, as neither party wants to invest time and resources into an unsuccessful outcome.
Novak: …Cultural fit and a mutual respect for all of the owner’s objectives. You can discover that pretty quickly through management calls and meetings. Always remember, as the seller, due diligence is a two-way street.

Q: Home Health Care News: Besides price and terms, the most important thing in selecting the right buyer for your company is…

“…Advocating for fair payment rates and payment models across all payers, given the excellent outcomes delivered in the patient’s preferred setting while battling a continued inflationary environment.”