marketWATCH

HOME HEALTH & HOSPICE

AMIDST A SLIDE IN HEALTH CARE M&A, HOME HEALTH AND HOSPICE BUCKS THE TREND

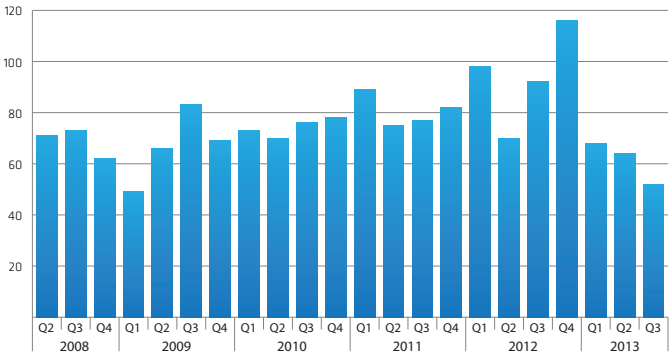
Across all health care sectors in aggregate, the first nine months of mergers and acquisitions activity in 2013 have been pretty bleak. Based upon proprietary data collected and analyzed by The Braff Group, after the tax incentive inspired surge in activity at the end of 2012, we have seen deal flow slide for three consecutive quarters, closing out Q3 at the lowest levels since the first quarter of 2009. While private equity investment in all industries is generally down from a year ago, it has, more or less, leveled off. Not so in the health care service sectors we cover, where PE sponsored deal activity has plunged to its lowest level since the second quarter of 2010. Moreover, according to Thomson Reuters, over the first three quarters of the year, the aggregate M&A value of all health care transactions (including pharmaceuticals, medical devices, senior housing, etc.) has fallen 65%.

Not surprisingly, the conventional wisdom is that the "across-the-board" plunge is due to the extraordinary uncertainty regarding the initiation of health care reform. This is undoubtedly true. However, there is almost certainly another factor at work here.

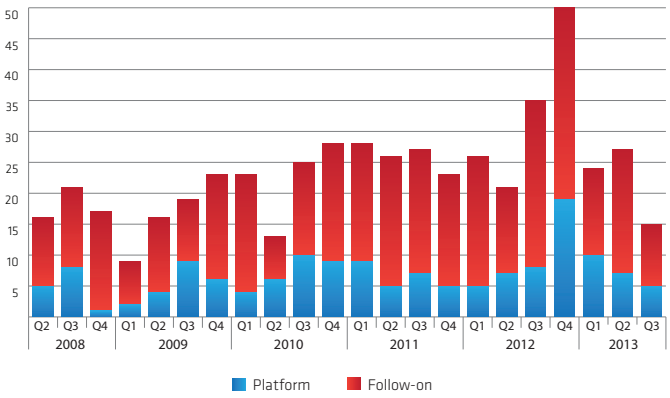
Distraction.

As The Braff Group vividly illustrated in its analysis of investment trends, pre- and post-technology bubble of 2001, health care investment tends to run counter to technology. When technology is down, stock market and corporate buy-out money rushes to comparatively safer, demand resistant, health care vehicles. But, when technology is up, the market becomes all a-twitter (pun intended) about the latest "billion dollar opportunity du jour." Even though the majority of these opportunities turned into "quicksilver" (remember pets.com, etoys, webvan?), the rush is on once again to chase the likes of twitter and its spawn.

All Health Care Services Deal Trends



Private Equity Investment in Health Care Services



Source: The Braff Group

"Long view" money will always be in health care, especially when there are opportunities to capitalize on market disruptions such as health care reform.

But, for now, a lot of money is distracted – a distraction which has likely siphoned off some M&A demand in health care services.

Amidst this "noise," we have home health and hospice. Even staring down the gauntlet of rate cuts, rebasing, regulatory scrutiny, and other assorted (and quite visible) obstacles, a somewhat blunted, but nevertheless steadfast, M&A market persists. As the chart below illustrates, aggregate home health, hospice, Medicaid, and private duty M&A activity reversed course last quarter, rising 50%.

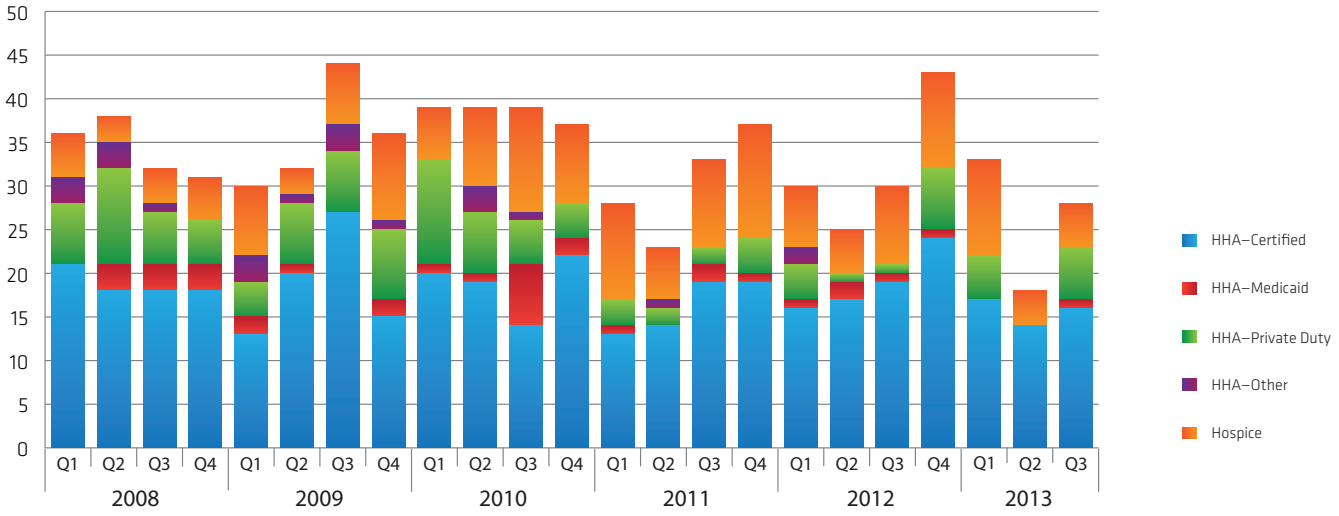
Some observations:

Stability amidst the chaos. As we indicated in our fall issue of marketWATCH, while the prospect of four consecutive years of Medicare home health rebasing is daunting, it is clear. Moreover, it may provide some insulation from further cuts – notably co-pays – at least through the end of the Obama administration. For both buyers and sellers, such stability not only bridges gaps in valuations, it brings more participants on both sides of the table into the market.

Private pay is visible again. As illustrated in the chart below, and again, based upon proprietary data gathered by The Braff Group, we have seen a noticeable uptick in private pay, private insurance home care transactions. In fact, on a rolling four quarter basis, the last 12 months have produced the most private pay deals (18) since the four quarters ending Q1 2011. Although it's too early to conclude yet, it is quite possible that this surge in PD activity represents a Medicare diversification play, similar to the recent pivot towards Medicaid and state funded home care that we wrote extensively about in our recent ***marketWATCH Special Report: Medicaid.***

Not-For-Profits are part of the mix. Perhaps it comes as no surprise, but in such an increasingly hostile reimbursement climate where survival can no longer be taken as a "given," more and more Boards of not-for-profit home health and hospice entities are considering the financial, community, and access implications of merging with local, and like-minded, NFPs. While cultural and "turf" issues have limited such deals in the past, such barriers are slowly giving way to pragmatism. Consequently, there were at least three such transactions in the last quarter alone, and we anticipate that the pace will accelerate over the next 12-24 months.

Home Health & Hospice Deal Trends by Segment.



Source: The Braff Group

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