
# marketWATCH

SPECIAL REPORT

## MEDICAID AND STATE FUNDED HOME HEALTH CARE:

### All of a sudden, Medicaid is hot.

Check out the stock market.

Over the past six months, since Addus divested its Medicare home health operations to focus primarily on Medicaid – a transaction headed up by The Braff Group – its stock has risen 229% (from just under $9.00 to almost $29.00 per share), while the publicly traded providers focused on Medicare have seen only modest gains. Equally revealing, from the first quarter of 2009 (when Addus went public) and September 30, 2013, Addus was the only provider that posted gains – and those gains were nearly 220%.

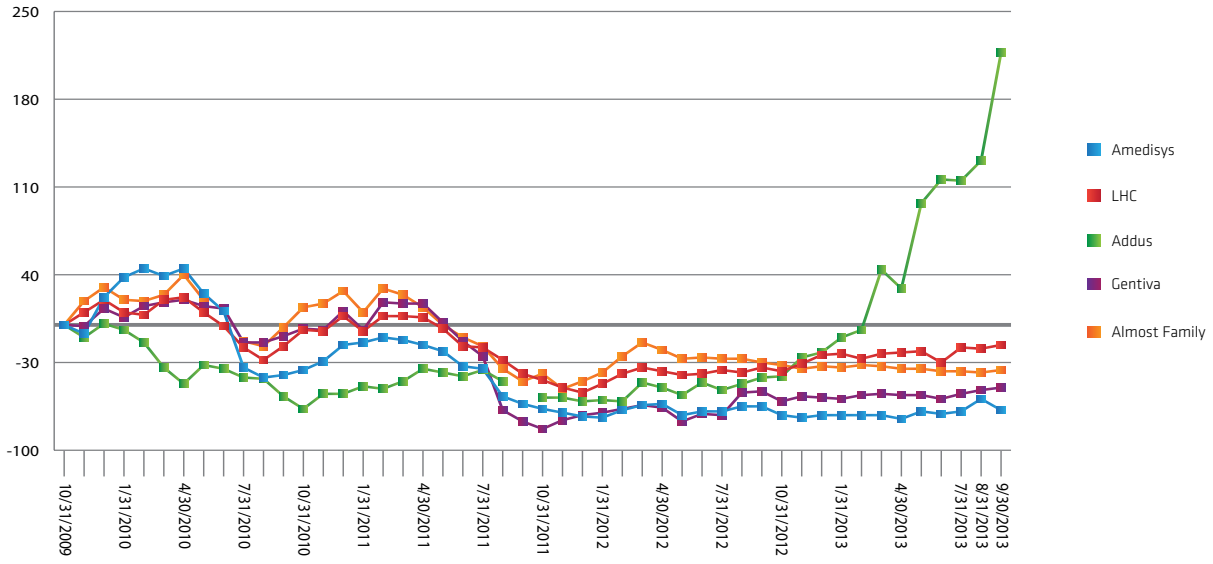
On September 19th, Gentiva announced its intended acquisition of Harden Healthcare. In every analyst report we saw, it wasn't the acquisition of Harden's substantial Medicare home health and hospice operations that got them excited, but rather its acquisition of their Medicaid and home and community based services, because they provide diversification from Medicare and gives the company greater access to expanding programs – notably dual-eligibles.

Yes, all of a sudden, Medicaid is hot.

Actually, though, it's not so sudden.

**In fact, as early 2010, The Braff Group predicted that economic and health care policy issues were beginning to come together to support a resurgence in Medicaid in 12-36 months.**

Public Home Health Care Stock Trends




Source: The Braff Group

Excerpt from TBG's Q4 2009 issue of ***Perspectives***, published in 2010:

*"What is interesting to note, however, [after Medicaid home health transaction volume plummeted in 2009] ,is that with (a) stimulus funds intended to shore up Medicaid financing in-place through the end of 2010, and (b) health care reform initiatives that greatly increase the federal funding for, and expansion of, Medicaid programs, if the economy improves and the states can muster the necessary resources on their part to support these initiatives, the sector may be on the cusp of substantial, long-term growth. This is particularly true for home and community based services that simultaneously represent a cheaper alternative to institutional care. As these issues will likely take a long time to play out, if they break favorably, we anticipate a steady increase in M&A activity for Medicaid and state funded providers over the next 12-36 months".*

## So what happened?

After the Affordable Care Act (with its substantial expansion of Medicaid) passed in early 2010, transaction volumes immediately spiked – including four new private equity sponsored platform investments. Amidst the backdrop of sustained political and judicial challenges to reform, however, recent volume has fallen off. But with the first major phase of implementation set to begin October 1st, regardless of where you stand on the policy issues, overall sentiment will likely shift from lingering doubt to inevitability, removing what may have been a final obstacle to moving forward with transactions such as Gentiva-Harden.

If the stock market is any indication, Wall Street is of a similar mind.

As for the resources available to fund these initiatives, while the economic recovery has been far short of robust, the Rockefeller Institute reports that, including preliminary data for the quarter ended June 2013 , total state tax collections grew for the 14th consecutive quarter. While that is indeed good news for Medicaid, the total story is far more complex and nuanced (i.e. while the Kaiser Foundation reports Medicaid enrollment will increase 2.7% in 2013, it will be the fourth consecutive year that growth has ***slowed***).

Our takeaway? States are still struggling, but they are in a far better position than when the recession began. Moreover, with a flood of federal dollars coming in to support health care reform, and new initiatives, such as dual-eligible coordination programs, gaining traction, there are plenty of good reasons to like the prospects for Medicaid.

## Implications for Mergers and Acquisitions

The key word from the previous sentence is ***prospects***.

Health care reform is far from settled. Three year demonstration programs for dual-eligibles have not even started. Diversification does, indeed, reduce risk. But with Medicaid home health profits typically lower than Medicare (even after the recent spate of cuts), diversification may also reduce margins. And this is before we consider the expiration of the companion overtime exemption and the implementation of the employer mandate (scheduled to take effect in 2015), as well as increased penetration of Medicaid managed care.

So what does this mean for M&A? Markets move in ***anticipation*** of new growth and new opportunities. And such anticipation often feeds upon itself, propelling markets even higher (how else can you explain valuations in the billions for tech companies that haven't even determined what their revenue model is?).

The same is true in mergers and acquisitions. It may seem cliché to say that timing is everything. But in M&A, if timing isn't everything, it's quite a bit.

The interest in, and valuation of, Medicaid focused providers is surging ***now***.

This may, indeed, remain so for an extended period.

And it may not.

**Call us to see how we can put our experience to work for you.**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Source: The Braff Group