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EMERGING HEALTH CARE TRENDS BEGIN TO UPEND TRADITIONAL M&A STRATEGIES

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During the 90s, the M&A market reflected a broad theme of “systemization” wherein providers sought to both retain patients in their systems and appeal to the “one-stop-shop” meme that allegedly appealed to payors. Hospitals went on buying sprees to acquire “cradle-to-grave” products and services including nursing homes, ambulatory surgery centers, home care, home medical equipment, hospice, specialty physician practices, and even insurance and HMO products. Anything (and seemingly everything) to get bigger, broader, and supposedly better. But, anyone who has repeatedly gone through the blood pressure-allergies-medications three-step on every stop from admission through discharge, could predict that multi-service coordination, while perhaps admirable, was not in their DNA.

In a similar vein, to capture patients at multiple access points, hold on to them, and also appeal to managed care, many post-acute providers sought to acquire and coordinate home health, hospice, and infusion services, only to find that as the complexity of managing multiple service lines drove costs up, reimbursement plunged as managed care was far less concerned with managing care, as it was in managing cost. So, innovators such as HealthCor, and Home Health Corporation of America found themselves more on the “bleeding” edge of a new health care delivery paradigm, than the cutting edge.

In the wake of these failed attempts at systemization and coordination, the market reversed course. In the name of specialization – and, the efficiency and marketing muscle that comes with it – the buzz word became focus, and acquisition strategies became extraordinarily narrow and insular. Hospitals shed much of their empires and turned to what they know….acute care. Home health providers bought home health providers. Infusion therapy providers bought infusion therapy providers. Same with hospice, home medical equipment, and, virtually, every other health care service sector that saw consolidation go into overdrive.

Wall Street rewarded the one-trick-ponies handsomely, driving up their stock prices. Forget the value of risk diversification. The mantra on “the street” was that if an investor wanted diversification, they could get it by assembling a portfolio of health care companies offering varying services on their own. At the company level, it was do what you know, and only what you know.

This strategy du jour has defined the health care service acquisition landscape for many du jours – ten years and counting. But, over the past few years, we’ve begun to see some new, new thinking. Buyers that had otherwise followed the same old, same old, are showing some moxie, going out on the proverbial limb in an attempt to gain first mover advantages in a health care environment on the precipice of fundamental change.

The following are just a few of the unique business combinations we have seen over the past few years, and how they might usher in a wave of new activity.

Hospitals Entertain Equity Sharing Models

Within the past 36 months, we have seen an increasing number of deals in which hospitals essentially merge their home care and hospice interests with those of a local, regional, or national provider. In doing so, acute care providers, which tend to struggle in managing post-acute endeavors, gain a partner that can shore up operations, generate revenue-enhancing and cost-reducing synergies, and turn deficits into surpluses. Moreover, under such an arrangement, they remain well positioned to seamlessly route patients to home care and hospice, as appropriate, to an existing or planned accountable care organization (ACO) or other coordinated care program. The leader of this strategy has been LHC Group, which has completed many deals with hospital owned entities. However, we have also seen a growing number of innovative local and regional providers enter into similar equity sharing arrangements. In the past, buyers have been extremely cautious in acquiring providers with such links to hospitals, citing regulatory concerns. But, in an environment in which collaborative relationships promise to provide better outcomes at lower costs, and create barriers to entry for non-affiliated providers, such relationships are now considerable value enhancers.

Kindred Goes on a Buying Spree Targeting Home Health and Hospice

While acquisitions of home care companies by post-acute providers – particularly skilled nursing firms – has been occurring for several years now, the spree undertaken by Kindred has shined a bright light on strategies to create seamless, post-acute, coordinated care operations. Once largely a skilled nursing facility provider, the firm is now focused on developing “integrated care markets” with the capacity to offer a “full array of post-acute services including transitional hospital care, short term rehabilitation, skilled nursing, home health, palliative care, and hospice” in order to capitalize on an expected shift to bundled payment models. Weaving themselves further into coordinated care, Kindred recently announced that it
had agreed to become a partner and owner in a Nevada-based ACO. And, in a move that will surely gain the attention of those that may have missed (or dis-missed) this tactic, at the time of this writing, Kindred continues to pursue an unsolicited bid to acquire home health and hospice giant Gentiva. **We fully expect this kind of activity to accelerate over the coming years, as buyer pools for home care and hospice morph from one comprised largely of other home care companies, to a far more eclectic pool including national and regional post-acute providers vying for a greater role in transitional care.**

**Envision Acquires Guardian Healthcare**

In January of 2013, Envision Healthcare subsidiary Evolution Health acquired Guardian Healthcare, a large home health care provider with operations in Oklahoma, Texas, and Ohio. Envision was already a leader in providing physician-led outsourced services to hospitals and physician groups through its EmCare subsidiary. In acquiring Guardian, Envision will be better able to manage and coordinate services between the hospital and the home and other post-acute settings in order to improve outcomes, reduce preventable readmissions, and otherwise reduce the cost of care.

**Centene Acquires a Controlling Interest in US Medical Management and Humana Acquires SeniorBridge**

In December of 2013, Centene, a multi-billion dollar manager of health plans in approximately 20 states, acquired a 68% interest in US Medical Management, a health care management services provider, perhaps, best known for its physician house-call services for patients with complex medical conditions. The combination provides Centene with enhanced capabilities “to provide a continuum of high quality services that allow us to effectively manage the complex needs of our growing high acuity population,” among which are “dual eligible” Medicaid/Medicare beneficiaries that have become a focal point in cost containment strategies. This brings to mind **Humana’s 2012 acquisition of SeniorBridge**, a largely private duty home care provider that had built a strong, geriatric care management component. Among other benefits, the acquisition provided Humana access to a nationwide network of care managers that are specially trained to direct and coordinate care, as well as caregivers, that provide services in the home – often, the most efficacious setting. With a limited number of sizeable providers offering physician house calls or GCM services, we won’t see a deluge of deals of these kinds. But, they may stimulate other providers to build out these capabilities to better appeal to ACOs and other networks.

**Almost Family Acquires a Controlling Interest in Imperium Health Management**

In one of the more innovative deals completed in 2013, Almost Family went right to the heart of coordinated care by acquiring Imperium Health Management, a company dedicated to helping independent physician practices organize, develop, and manage their own accountable care organizations. In so doing, not only can Almost Family bypass the steep learning curve that providers face to succeed in these complex models, but it also provides them with the expertise, resources, and data to become a pro-active leader in developing them.

**Common, and Not So Common, Threads**

The common thread in all of these deals is that in one way or another, they all revolve around home health care – visiting physicians, home health nursing, or private duty professional and para-professional services. Given that (a) one of the most pressing goals of coordinated care is to prevent avoidable re-hospitalizations, and (b) the least expensive setting for post-acute services is in the home, it’s no wonder why home care would be the focus of at least the first wave of new business combinations. But, what about other health care service sectors?

Notwithstanding **Centene’s 2013 acquisition of specialty pharmacy provider AcariaHealth**, in order to enhance its capabilities to manage complex diseases, such deal combinations are less common in pharmacy services (largely home IV and specialty Rx). This is likely due to the fact that (a) many hospitals already have pharmacy capabilities, (b) hospitals can readily coordinate home infusion services with their home health “partners” that are quite familiar working with these firms, and (c) many specialty pharmacies are already owned by PBMs and other entities focused on cost containment.

In home medical equipment, there appears to be little appetite to align with these providers because equipment, vehicle, and delivery management is too far removed from their core competencies. Furthermore, appropriate or not, the perception is that there is little one provider can do vs. another to drive substantially better clinical outcomes at lower costs. Accordingly, the belief is that an alliance with, or acquisition of, a particular HME provider will not generate the kind of coordination ROI they are seeking.
The Next Wave of Coordinated Care Driven Acquisitions: Behavioral Health Care?

But, what about behavioral health care? The sector is already one of the most vibrant in terms of private equity investment and strategically driven deals within the behavioral health care sphere (i.e. one BH company acquiring another).

In what may prove to be a landmark study commissioned by the American Psychiatric Association entitled, *Economic Impact of Integrated Medical-Behavioral Healthcare: Implications for Psychiatry*, prepared by Milliman, Inc., the researchers concluded that “effective integration of medical and behavioral care could save $26-$48 billion annually in general healthcare costs” with “most of the projected reduced spending…associated with facility and emergency room expenditures in hospital facilities.” Much like hospitals, insurers and post-acute providers have targeted home care related services in an effort to reduce re-hospitalizations. Based upon this report’s findings, we may very well see these innovative providers turn towards behavioral health care in the “next wave” of alliances, partnerships, and acquisitions, to further build out their coordinated care offerings.

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