

# Home Health Line

Regulatory news, benchmarks and best practices  
to build profitable home care agencies

## **More mid-sized agencies enter the market as part of the upswing in 2010 sales**

Home health agency owners should prepare for increased opportunities to sell their agencies as the economy starts to improve and interest in home health picks up.

Sales of home health agencies climbed 55% from the first quarter of 2009 to the first quarter of 2010, and experts predict that the perfect mix of factors will lead to continued sales.

In the first quarter of 2010, 17 Medicare-certified home health agencies were sold, compared with 11 in the first quarter of 2009 and 14 in the fourth quarter of 2009, according to data compiled by Pittsburgh-based The Braff Group (*see chart, pg. 2*).

The majority of agencies sold this year were mid-sized agencies, averaging \$2 million to \$20 million in annual revenue, says Don Cummins, president of Stoneridge Partners, a home health mergers and acquisitions firm in Fort Myers, Fla.

That is different from the past when most of the agencies being bought were larger agencies, averaging \$50 million in revenue, says Dexter Braff, president of The Braff Group, a mergers and acquisition firm. He still expects sales of those larger agencies to pick up, perhaps by the end of 2010.

### **Health reform triggers increase in sales**

One of the main reasons for the upswing in sales is that many of the unknowns once pending in the proposed health care reform bills are now known, Braff says.

The final health care reform law, signed March 23, contained less severe payment cuts than those that were proposed, meaning agencies are worth more (*HHL 4/5/10*).

In addition, external financial factors are playing a role in the increased sales, Cummins says. The current capital gains tax rate – of a maximum of 15% on long-term gains – is expected to expire at the end of 2010. As a result, rates could rise to about 20% in 2011, causing the cost of purchasing an agency to skyrocket.

Lastly, increased financing has played a role in the market shift, Cummins says. During 2009, the credit markets seized up, he says. Private equity firms virtually dropped out of the home health market. With the easing of credit in 2010 and the increased capital, more groups outside of home health have joined the acquisition fold again, Cummins says.

### **Finance investigation affects valuation**

One major development in the home health that's not likely to impact sales: The Senate Finance Committee's investigation into the therapy practices of the 'Big Four' home health companies – Amedisys, Almost Family, Gentiva Health Services and LHC Group (*HHL 5/17/10*).

While the investigation has sent shivers through the home health community, it will have little effect on the acquisitions market, Braff says.

"Every buyer has been scrutinizing issues around utilization and visit patterns for the past 12 months," Braff says.

The only area where it could affect buying and selling is in the valuation of agencies; since the Big Four have taken a hit in their worth, it could slightly devalue other agencies, Braff says.

### **Timing is everything in sales**

As the market heats up, agencies looking to sell should follow this advice from Braff:

✓ **Don't sell when your annual revenue is more than 35% higher than your previous year's revenue.** Buyers will see this as hypergrowth, an unattainable rate of growth that will overvalue an agency.

✓ **Don't sell when your annual revenue is less than 10% higher than last year's.** This indicates that your agency's growth may have plateaued, and it may not be a wise acquisition.

✓ **Do sell when your annual earnings are between 10% and 35% higher than last year.** That will be the most accurate valuation, and you will receive the highest fee for the agency.

## 2 more tips to prep your HHA for sale

- **Take six to nine months to audit your billing practices and financial reports.** Make sure all of your financial statements are well-organized, Braff says. If an agency or investor comes in and sees disarray, they could either lowball the offer or walk away.

Healthy financial reports, including average outlier percentages, can set apart an agency, Cummins says.

- **Make a personal assessment.** Ask yourself if you're ready to leave, Braff says. No matter how generous the offer, you have to be ready to give up your business. —Bradford Pearson ([bpearson@decisionhealth.com](mailto:bpearson@decisionhealth.com))

## Home health agency sales pick up after sluggish 2009

The first quarter of 2010 brought a sharp increase in sales among Medicare-certified agencies, according to data compiled by Pittsburgh-based The Braff Group. That follows a slight dip in 2009 sales, resulting from a slumping economy (*see story, p. 1*).

Industry	Q4 2009	Q1 2010	% change	Q1 2009	Q1 2010	% change
HHA-Medicare certified	14	17	21.4%	11	17	54.5%
HHA-Medicaid	2	1	-50%	2	1	-50%
HHA-Private duty	8	10	25%	4	10	150%
HHA-Other	1	—	-100%	3	—	-100%
Hospice	8	6	-25%	7	6	-14.3%
Staffing	7	8	14.3%	4	8	100%
HME	9	7	-22.2%	6	7	16.7%
Infusion therapy	4	5	25%	2	5	150%
Institutional pharmacy	1	—	-100%	1	—	-100%
Specialty pharmacy	2	2	0%	—	2	—
<b>Total</b>	<b>56</b>	<b>56</b>	<b>0%</b>	<b>40</b>	<b>56</b>	<b>40%</b>

Source: The Braff Group