

HME News

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It can only go up from here

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By Theresa Flaherty Associate Editor - 02.2007

YARMOUTH, Maine -The mergers and acquisition market for HMEs was soft in 2006, but industry watchers have opened the books on 2007 with cautious optimism.

Deals through the third quarter of 2006 were down 39% from 2005, with 43 deals completed, compared to 87 deals the previous year, said Dexter Braff, president of Pittsburgh-based The Braff Group.

"It was a bad M&A year, no question about it," said Braff. "I think 2007 could be marginally better."

With the lame duck session safely behind--and the feared 13-month oxygen cap off the table--industry analysts believe buyers and sellers will crawl back into the fray despite competitive bidding.

"They've already squeezed so much out of reimbursement that most people don't feel we're going to have huge further cuts," said Bob Leonard, an analyst with The Braff Group.

With the tide turning more favorably toward home health under the new administration, Wall Street is again showing interest, said Gina Bienkowski, vice president at Ultimate Resource in Newton, Pa.

"We're seeing more interest in respiratory, but pure DME is still a tough sell," said Bienkowski. "Buyers are far more selective than during 2005's heyday."

Companies with diversified product and payer mixes, business growth and a solid sales team can have a tremendous impact on a company's value, said Jonathan Sadock, a managing partner with Paragon Ventures in Mount Pleasant, S.C.

"We have seen a lot more activity with private equity firms and local and regional players," said Sadock. "They have been acquiring other companies at a fair valuation, but not the kind of stellar valuations we saw in 2003 and 2004."

Buyers are setting their sights on smaller companies, said Rick Glass, president of Steven Richards & Associates in Tarpon Springs, Fla.

"I'm seeing acquisitions that add new geography to existing buyers," he said. "The national players continue to be quiet."

Insiders don't expect competitive bidding, which kicks off in 10 cities some time this year, to create a buying frenzy in selected markets.

"I would think most of the big players have branches in those areas already," said Bruce Burns, president of Affinity Ventures in Albuquerque, N.M. "If they weren't already in that market, they might want to buy there so they can at least bid in that area. But that is remote."