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How to Avoid Home Health Dealmaking Landmines

By Joyce Famakinwa | August 16, 2021

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Interest in acquisitions, mergers and joint venture arrangements continues to heat up in the home health space. But for every successful deal that's closed, there's another that ultimately ends up falling apart. While dealmaking landmines will always be present, smart home health providers can often work around trouble if they know where to step.

Overall, home health transactions are on the rise again following the initial disruption of both the COVID-19 virus and the Patient-



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“I see home health activity picking up now, conversations are taking place now, meetings are taking place now,” Mark Kulik, managing director at The Braff Group, said this week at the National Association for Home Care & Hospice (NAHC) Financial Management Conference.

Between 2017 and 2021, about 20% of all transactions in the marketplace were joint ventures, as opposed to an outright acquisition.

When looking at transactions, buyers today are most commonly with a private equity fund or similar financial group, with strategic buyers often driving dealmaking as well. For sellers looking to strike a deal, it’s important to understand which of these are a better fit,

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“I always ask a potential seller, ‘What do you want to do the day after the closing?’” Schabes said during the NAHC event. “Now, if the answer to that question is, ‘I want to buy a boat and disappear for the next two years,’ they’ve basically eliminated every single financial buyer that is out there. A private equity fund is not very interested in having the founder and the operator of that company disappear right after the closing.”

Additionally, a financial buyer will almost always require a seller to roll over somewhere between 25% to 49% of their equity, depending on the kind of transaction, Schabes noted.

For sellers who want to end their involvement with a company after the deal has been completed, a strategic buyer is likely a better fit.

There are also a number of different types of transactions: equity deals, which involve selling the company’s stock; asset deals, which

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joint venture could raise all kinds of regulatory issues. Meanwhile, with stock and asset deals, buyers potentially inherit the company's liabilities.



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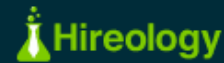


“As of late, we’ve seen far more desire for stock or equity deals versus assets,” Kulik said. “If you go back 12 to 15 years, it was probably flipped. There were more asset transactions versus equity deals done. I think the reason for that is that buyers don’t want to interrupt their cash flow.”

All of these concerns point to the importance of due diligence, which has grown increasingly more difficult because of the liabilities that come with transactions.

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There are a number of other factors that could ultimately torpedo the transaction, too. This includes a misalignment of cultures between the buyer and seller, according to Kurt Baumgartel, executive vice president and chief operating officer of home health and infusion at Compassus.

“Our company, for example, does joint ventures,” Baumgartel said. “Oftentimes, we’re looking for more of that partnership approach, where we’d like to acquire talent along with provider agreements and adding to our geography. ... You need to make sure that, culturally, you’re aligning with the right company.”

Nashville, Tennessee-based Compassus offers home health care services, plus infusion therapy, palliative care and hospice care. The company served 129,500 patients in 2020, operating across 30 states.

Baumgartel also pointed to the importance of the integration processes as a factor in making sure a deal succeeds.

“People always wonder, ‘What does this transaction mean for me?’” he said. “‘Will my job or benefits change? What will my role be?’ You’ve got to be prepared for all of that. One of



dealmaking based on the state they're operating in. States such as New York, California and Florida, for example, are tougher markets to complete transactions in.

"If you have a certified home health agency in the state of New York, you cannot, as of today, sell your agency," Mahabes said. "It is 100% impossible because the state of New York will not accept an application for change of ownership. The best thing you could possibly do is have your buyer manage it for you."

In California, it takes 12 to 18 months to get approval for a home health or hospice transaction.

Depending on the size of a company, it will also be important to take on accrual-based accounting versus cash.

"If you're thinking about exiting in the next two, three or four years, talk to your accountant about getting an accrual-based set of financials," Kulik said. "That is the tool that buyers will use to acquire your business."

Ultimately, it's important to keep your foot on the gas pedal during the stage when a company is either preparing to go to market or during the due diligence period.



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Joyce Famakinwa is a Chicago area native who cut her teeth as a journalist and writer covering the worker's compensation industry and creating branded content for tech companies and startups. When she isn't reporting the latest in home health care news, you can find her indulging in her love of vintage clothing, books, film, live music, theatre and reality tv.



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