

# What is Driving The Surge in Hospice M&A?

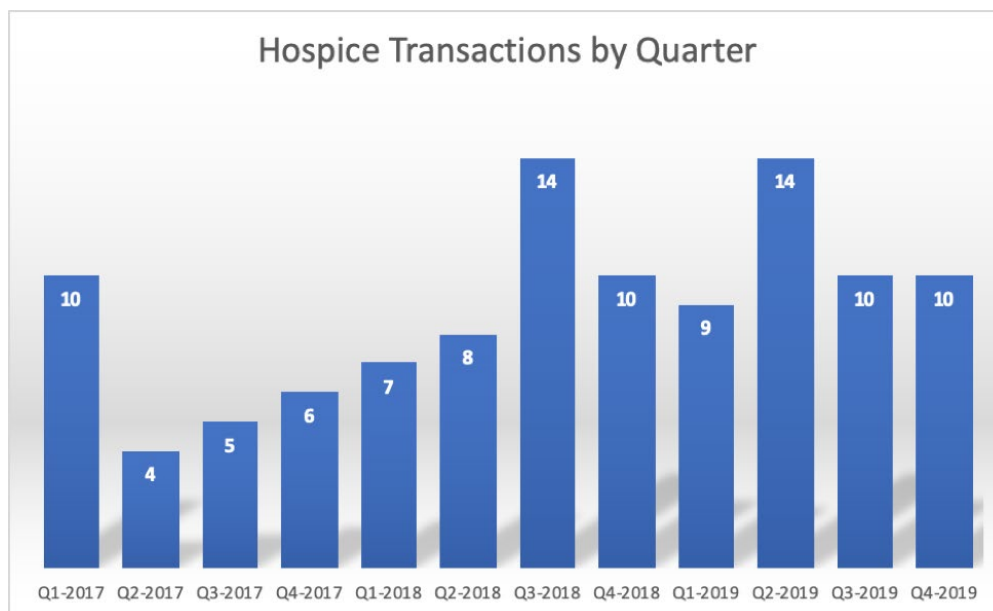
*And how long will it last?*

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2019 was a banner year for hospice mergers and acquisitions activity. Of the roughly 101 home health, home care, and hospice M&A transactions that took place, 42 were hospice-related deals. Hospice didn't just make headlines for volume, it also accounted for the largest deals in the fourth quarter of 2019.

Multiple factors created an impressive 2019 that helped hospice providers ride a wave of successful transactions, however, there are potential market changes in the future that could turn, or at least slow, the tide in 2020.

“While they won't last forever, we see three main drivers behind the surge in hospice M&A,” says Mertz Taggart Managing Partner Cory Mertz. “First, hospice offers desirable health care synergies; second we are seeing a huge wave of private equity deals; and third, this sector has historically shown immunity to payment changes under the Centers for Medicare and Medicaid Services (CMS).”



## **Synergy-Seekers**

As the U.S. health care sector continues to progress toward a more value-based model, hospice allows buyers to better align themselves with this change. Because of their ability to provide the right care setting at the right time for the patient, hospice is becoming an appealing addition to some organizations. Accountable care organizations (ACOs) and payers are attracted to the continuum of care that results from adding hospice to the menu of institutional offerings.

Hospice also creates the opportunity for payment diversification, which is especially important as the recent implementation of the Patient-Driven Groupings Model (PDGM) has created some disruption for home health operators. Organizations that have both home health and hospice assets have the ability to leverage referral synergies, essentially becoming a one-stop-shop for post-acute care services. Hospice usually boasts stronger margins than home health.

“More and more, hospice has become favorable among buyers due to those strong margins,” Mertz says. “Many have caught on to this; in fact, the number of hospices operating in the U.S. has almost doubled since the year 2000.”

## **Private Equity Leading the Charge**

Heading into 2020, private equity firms have more funds than ever before; a reported \$1.5 trillion in unspent capital. These private equity players, whose interest in health care has grown significantly over the years, have taken notice of hospice, accounting for 54 of the 107 hospice transactions from 2017-2019.

“Private equity firms also have aggressive growth mandates, and, given their supply of cash, often this growth is best achieved through acquisition,” Mertz says. “Typically, these firms look to buy and sell an asset within three to seven years, making the hospice sector, with its relatively strong margins, very attractive.”

## **Protected Payments**

Historically, the hospice market has been shielded from significant reimbursement changes — making it a bright spot in the post-acute care market. This has also made hospice relatively stable when compared to the home health market, which has to navigate tricky reimbursement hurdles due to PDGM.

“Nothing lasts forever, but this care setting has certainly fared better across the reimbursement landscape than its home health and skilled nursing counterparts,” Mertz says.

## **Potential Headwinds**

While hospice has seen a significant amount of M&A activity, there are a number of possible headwinds to look out for on the horizon.

**Turning market cycles:** All markets are cyclical, and high public company valuations allow for high private company valuations. Home health and hospice operators could see a valuation hit in upcoming years, and hospice will not always have the sky-high multiples of EBITDA seen today.

**An economic downturn:** An economic downturn would carry an impact for the hospice market, with many expecting a recession in the next few years. This could lead capital markets to tighten and interest rates to rise. For context, it's been over 10 years since the Great Recession hit.

**Payment rates:** Last month, the Medicare Payment Advisory Commission (MedPAC) made a lot of noise with its vote to recommend that Congress skip Medicare payment increases for hospices in 2021. The vote also called for a 20% reduction in the aggregate payment cap.

“It's not immune to a downturn,” Mertz says. “But hospice has seen a boom year for transactions. Pending economic shifts, changes to the payment landscape and other unforeseen factors, those who are currently active in the hospice space are continuing to enjoy a strong M&A market.”

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