
Market Trends and M&A in Home Health / Hospice

Fragmented market and industry tailwinds driving consolidation

Executive Summary

Introduction

The home health and hospice market remains one of the most fragmented sectors within healthcare services with many independent players holding significant market share in their respective geographies. Given the wide breadth of smaller companies, demand for home-based care, and the non capital-intensive nature of the business, there is significant opportunity in the space for both private equity and strategic-led consolidation.

While strategic and private equity groups continued to utilize mergers and acquisitions to grow patient census, add new locations, and enter new geographies, other investors have entered the space to expand into new service lines and leverage potential synergies. As there are only a few number of quality platforms within the home health and hospice space, companies should expect to receive significant interest and heightened valuations from an expanding buyer pool that includes private equity groups and large providers.

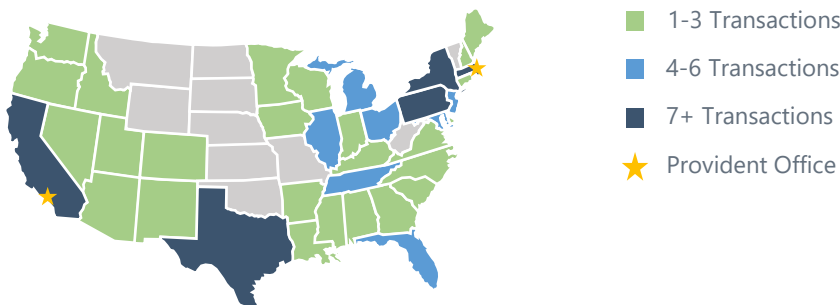
Select Provident Represented Transactions

Home Health	Home Health & Hospice	Hospice
 <p>Has been recapitalized by</p> 	 <p>Has been recapitalized by</p> 	 <p>A portfolio company of</p>  <p>Has been acquired by</p> 
 <p>Has been recapitalized by</p> 	<p>The Home Health Operations of</p>  <p>Has been acquired by</p> 	 <p>Has been acquired by</p> 

About Provident

Provident Healthcare Partner's investment banking team works with privately owned healthcare companies to provide advisory services related to mergers and acquisitions. Prior to formal engagement, Provident works with companies to provide the upfront education to shareholders necessary to understand the economics, structure, and motivation of a transaction. Following the education process, if formally engaged, Provident leverages their extensive knowledge of the buyer universe to find the most compatible partner and drive valuations for a company's previously illiquid stock. Driving the entire transaction process, Provident facilitates and assists with deal structuring, negotiations, exit planning/processing, counseling amongst shareholders, and due diligence.

National Presence



Note: The above map represents states where Provident clients were headquartered. Provident has successfully closed transactions with clients operating in 45 states and Puerto Rico.

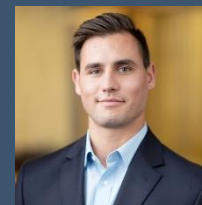
Post Acute Care Deal Team



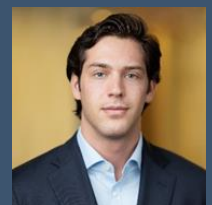
Kevin Palamara
Managing Director



AJ Shekar
Vice President



Lucas Lebrao
Senior Analyst



Jake Vesely
Senior Analyst

Combined 25+ Years of Deal Experience

Home Health / Hospice Macroeconomic Trends

The Home Health industry is one of the fastest-growing healthcare industries in the United States and is responsible for saving billions of dollars by moving treatment from traditional institutional settings to the patient’s home. From 2013 through 2018, the industry is estimated to have grown at an annualized rate of 3.3% and currently sits at a \$92.8 billion market size. There are several macroeconomic drivers that are fueling growth for home health and hospice agencies in the United States.

An Aging Population

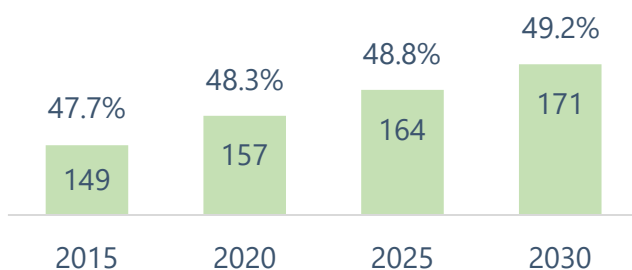
The aging population provides strong tailwinds for patient volume and continued growth for home health and hospice providers. By 2030, all baby boomers will be older than 65, shifting the U.S. population so that one in every five Americans will be classified in retirement age. Combining the high prevalence of disease, the required assistance associated with the elderly population, and the preference to receive care in the comfort of one’s home, the home health industry is poised for growth.

Chronic Disease

The leading cause of death and disability in the United States is due to chronic diseases. Roughly 45% of the population has at least one chronic disease, which reduces patients’ quality of life and increases demand for health care.

(Patient count in millions)

Projected Number of People with Chronic Conditions & Percent of U.S. Population



Older patients diagnosed with diabetes, congestive heart failure, or chronic obstructive pulmonary disease, for example, require close attention from registered nurses that assist patients with everyday life tasks, especially during the later stages of their diseases.

Movement Toward Cost-Efficiency

Patients with chronic conditions account for the majority (about 75%) of health spending in the U.S. As healthcare costs continue to rise along with premiums for employer-sponsored family coverage plans, providers seek cheaper alternatives of care. Home healthcare services are an extremely cost-effective treatment option with an average cost of \$47 per day, compared to the average cost per day at an inpatient rehab hospital or long-term acute care hospital of over \$1,000. As value based care continues to drive significant reform across the healthcare sector, Provident expects increased utilization of home-based care settings over traditional institutionalized settings.

Favorable Payor Environment

There is noticeable growth in both commercial and public coverage for patients in the U.S., which stimulates demand and determines the prices charged for home health services. Both Medicaid and Medicare are responsible for 78% of the sector’s revenue in 2018 and federal funding for these programs are expected to increase. Over 10% of the industry’s revenue come from private payors and the number of people with private health insurance is expected to increase in 2019.

As more Americans receive coverage from health insurers, the more likely it is that they will use healthcare services more frequently. Thus, the growing trends in insurance coverage has a direct impact on healthcare demand.

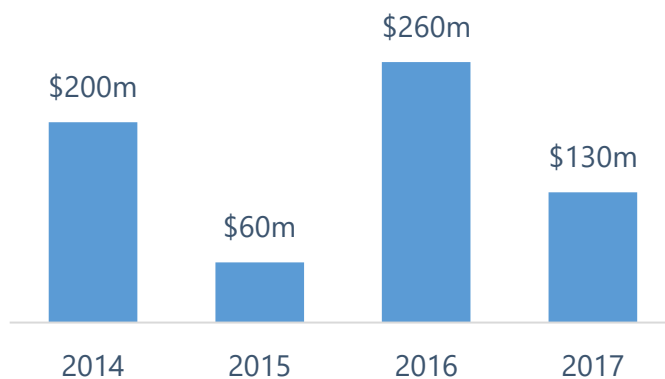
Industry Risks and Consolidation

Payor Concentration Risk

The industry has experienced multiple reports of operators achieving excessive margins which has drawn attention from the Medicare Payment Advisory Commission. Investors have also questioned if reimbursement rates can remain sustainable in such a rapidly growing industry. Thus, home health and hospice sectors bear considerable risks for both providers and investors.

Reimbursement risk is mainly driven by the sector's strong payor concentration of Medicare, Medicaid, and other government third-party payers with Medicare being the largest source of revenue for home health agencies. Contracted private and commercial payors also fall under this category. The lack of diversity in the sector's payor mix poses a direct threat to companies' margins, which can be significantly impacted by a change in legislation. In 2010, the Patient Protection and Affordable Care Act (PPACA) was passed, which led to a reduction in total reimbursement that Medicare-certified home health agencies receive. The cuts to reimbursements only continued and further reduced benefits from Medicare.

Total Reduction in Home Health Medicare Reimbursement per Year



In addition, the sector's second largest revenue source, Medicaid, is also vulnerable to state legislation changes that may lead to reductions in

revenue. State Medicaid programs develop and implement payment rates that are determined by a published fee schedule. This only further reduces the operator's control over its revenue.

Market Response

Providers have begun to explore merger and acquisition opportunities as a means to offset reimbursement risk, recruiting challenges, and compressing industry margins. As agencies aggregate, they are able to leverage the scale, data capabilities, and branding to mitigate some of these risks. Platforms that are diversified across numerous services lines are able to withstand potential downturns in reimbursement or changes to minimum wages. Additionally, platforms are able to leverage their MCO and ACO relationships to offset some of this burden.

Industry Consolidation

Due to the low barrier to entry in the market, the number of companies in the sector has grown at an average annual rate of 4.7% since 2012 resulting in an extremely fragmented market. As the number of smaller home health providers grow in the U.S., larger platforms continue to seek out and acquire agencies. Government reform, such as reimbursement cuts to Medicare and Medicaid, have served as a catalyst to mergers and acquisitions in the space and is expected to further influence consolidation in 2019. Consolidation among smaller agencies has also gained momentum over the last few years as competitors attempt to capture market share in their respective states and combat lower profitability. Additionally, smaller agencies are utilizing mergers and acquisitions to align with companies that have the scale to withstand potential hits to reimbursement or other potential industry headwinds.

Strategic and Private Equity Activity

Large Player Advantage

With continued reimbursement cuts, Provident expects consolidation to continue over the next five years as providers attempt to offset shrinking margins, diversify service lines, and capture market share. Larger home health and home care companies are in an advantageous position because of their ability to negotiate with vendors and effectively recruit in a challenging recruitment environment. In addition, providers are seeking to capitalize on potential ACO relationships by expanding into different service lines, with the goal of providing value and risk-based care services. While this will greatly increase referrals, the diversification will position larger providers to withstand negative downturns in reimbursement. Smaller companies will benefit from consolidators as they provide the necessary funding and strategic guidance to grow.

A case example of this is the 2018 merger between LHC Group and Almost Family. The combined company became the second-largest U.S. home health provider with more than 780

locations covering over 60% of Americans 65 and older. The result of the deal created a full continuum of home health, personal care, and

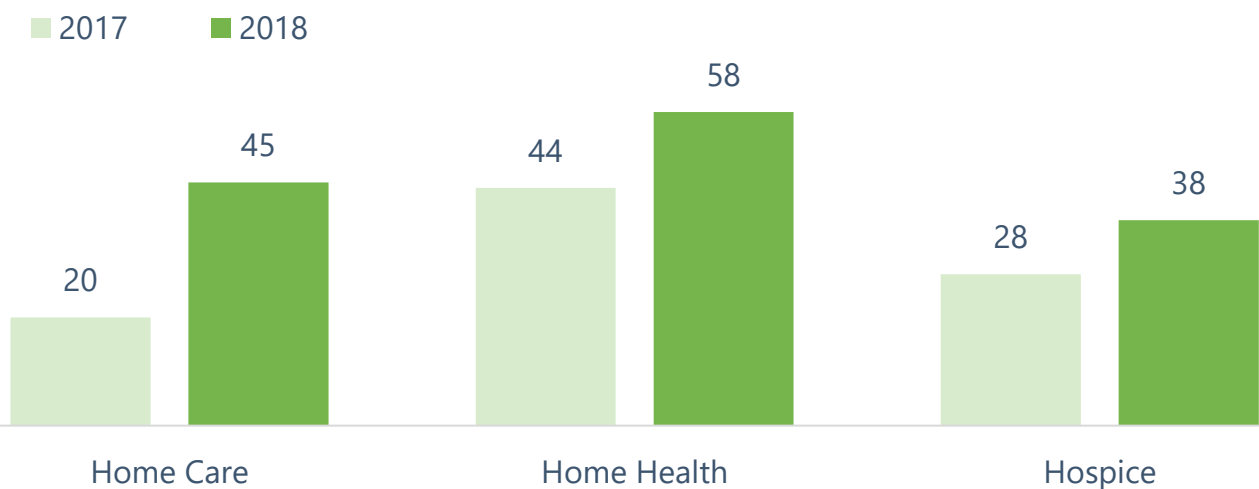
hospice services, putting LHC Group on track to offer home care and hospice services in every market they operate in.

Addus HomeCare Corporation, a provider of home care services, also acquired Ambercare Corporation in 2018 for a purchase price of \$40 million. The transaction added hospice care to its service line, indicative of the trend to an all-encompassing care model. This solidified the Company's position in New Mexico, increased its market share, and expanded its scope of home based services to a more diverse patient base.

Payor Development

Health insurers have also shown interest in the home health sector due to the synergistic opportunities between the two industries. Humana Inc. invested along side with PE several firms for 40% stake in Kindred Healthcare and Curo Health Services. The partnership allows Humana to integrate outpatient services with their Medicare Advantage plans. Major payors such as Humana, UnitedHealth Group, Anthem, Aetna, and Cigna are also interested in providers that can direct more seniors to their respective coverage plans.

Total Transaction Volume by Sector



Strategic and Private Equity Activity *(Continued)*

Attractive Market Trends

Over the last few years, an aging population and emerging technologies have increased PE interest in healthcare. To supplement industry tailwinds, a large amount of dry powder still remains in result of about \$1.2 trillion capital being raised in 2018.

Changes under the Affordable Care Act (ACA) have resulted in hospitals and post-acute facilities reducing lengths of stay. This, coupled with an industry where the over 65 population is the primary user, has drawn significant investment from PE firms looking to benefit from a fragmented industry that is ripe for consolidation.

Private Equity Driving Consolidation

In 2018, the industry witnessed over 60 private equity transactions in home health and hospice, 40 of which were tuck-ins to PE-backed platforms. Volume has increase from 2017 where there were 53 PE transactions. The growing trend in PE acquisitions in the space has driven further consolidation and is boosting higher valuation multiples for sellers looking for sponsors. Given high levels of fragmentation that exist in the market today and the high volume of agencies in

the space (over 5,000), consolidation is only projected to accelerate.

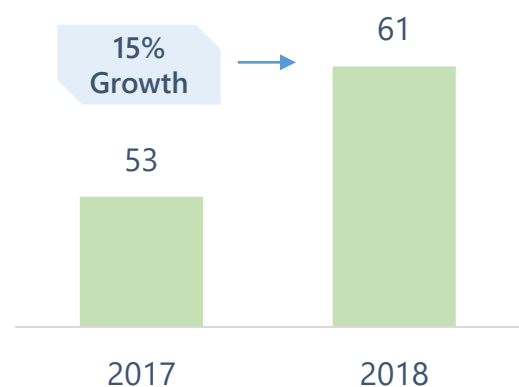
Great Lakes Caring, National Home Health Care, and Jordan Health Services transacted in a three-way merger that was backed by PE firms Blue Wolf Capital and Kelso & Company earlier last year. The combined entity rebranded as Elara Caring and expanded its geographical footprint across 16 sates. The Group's strategy was also to meet a greater variety of patient needs by offering personal care, skilled home health, hospice, and behavioral health services.

In addition, more and more PE firms are rapidly adding on to existing platforms to sustain growth in a fragmented market. Bain Capital, who previously invested in Epic Health Services at a valuation greater than \$1 billion, continues to make acquisitions in the post acute care space. Bain recently acquired Partners in Senior Care just three months after creating its platform company by acquiring Arosa and LivHOME. These growing platforms will continue to supply substantial cash flow from operations to fund both organic growth and execute additional accretive acquisitions in 2019.

Advantages and opportunities for PE consolidation lead to greater transaction volume



Private Equity Transactions in Home Health and Hospice



Industry Outlook

Patient-Driven Groupings Model

Home health agencies and investors have started to prepare for the upcoming changes to come with the implementation of the new Patient-Driven Groupings Model (PDGM). With the number of claims and the Risk Adjusted Processing Systems submissions nearly doubling, additional back office infrastructure will be required to process claims and adapt to the new model. Provident expects continued M&A opportunities will arise from smaller agencies not having the operational capacity or resources to adjust to the new PDGM payment framework. Furthermore, larger providers such as Addus, Elara Caring, Humana, and LHC Group will continue to utilize their infrastructure to drive further consolidation in the industry.

Medicare Advantage

Both investors and post-acute care providers are seeking to capitalize on the recent CMS changes to Medicare Advantage (MA) adding benefits for non-skilled, in-home supports providing daily maintenance and actives. While only 3% of MA plans are expected to include the personal care benefits in 2019, this is expected to significantly grow in the coming years. Home health providers will be seeking to form relationships with payors and strengthen their data capabilities to prove outcomes. Additionally, investors are paying premium multiples for platform caliber groups for the upside potential anticipated from capturing the new MA patient base. MA plans are seeking to improve the coordination of care throughout the patient experience and reduce the utilization of high cost care settings.

Revenue Diversification

As we transition towards a value-based reimbursement model, providers continue to expand into different service lines, both organically and through acquisition. This expansion was evident in Addus' acquisition of Ambercare earlier last year, expanding their services lines into hospice. Providers are focusing on capturing the entire continuum of care and providing risk-based care services for their patients. Additionally, Affordable Care Organizations (ACOs) are seeking to form partnerships with post-acute care providers to expand patients access to palliative care services. ACOs and providers will be providing value and risk-based care services with the aim of reducing hospital readmissions and improving the quality of care. Furthermore, providers are aiming to add palliative care services to further bridge the gap in the continuum of care. This trend is shown in Anthem's acquisition of Aspire Health in June 2018. Provident expects merger and acquisition activity to remain strong as providers continue to utilize M&A as a tool to further diversify revenue and expand into new service lines.

Concluding Thoughts

The transition to value-based reimbursement, implementation of PDGM, and recent changes to Medicare Advantage have spurred M&A activity amongst other strategic initiatives in a growing attempt to capture the entire continuum of care. Within the merger and acquisition market, this has created a more diverse investor base compared to historical trends of private equity or large strategic groups acquiring home health and hospice providers. The result is great flexibility and opportunities for home health and hospice companies in a deal process. Provident Healthcare Partners expects the post-acute care space to see further consolidation and investment activity throughout the remainder of 2019.

To the extent that it is of interest, members of the Provident team would be happy to elaborate on any of these trends & provide specific insights on healthcare niches, specialties, and industry verticals. Please contact us at (617) 226-4293 for additional information.



Provident is the leading investment banking firm specializing in merger and acquisition advisory, strategic planning, and capital formation for middle-market and emerging growth healthcare companies.

The firm has a vast network of senior industry relationships, a thorough knowledge of market sectors and specialties, and unsurpassed experience and insight into the investment banking process.

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