The Home Care Market is Hot — Know When it's Time to Sell

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Home Health Care News

The Home Care Market is Hot — Know When it's Time to Sell

Rich Tinsley offers four factors to consider to help you decide when the time is right for a sale. Tinsley is president and CEO of Stoneridge Partners, a merger and acquisition advisory firm, specializing in the sale of home care, hospice and behavioral health companies.

The market for home care companies is reaching new heights in 2016. Valuations are at an all-time high; and, the largest publicly held operators are posting new records in terms of market value.

Many operators are looking at the current market environment wondering: is now the time to make an exit from the business? Perhaps you have an interested buyer or you're thinking about engaging a broker to find one. Despite the upsurge in today's market, not every company is equally positioned to benefit from a sale during this time.

Large and small organizations are wise to look at a prospective sale in light of this market, but there are several additional considerations to weigh. What is the owner's state of mind? How do regulatory pressures come into play? Is the business marketable in its current state? How much is it really worth?

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- Rich Tinsley
President and CEO of Stoneridge Partners

"If your horizon is short term—less than five years—and you're contemplating selling, now may be the best time in the world to sell; because valuations are very high," explains Tinsley. "For the long haul however, it is probably a different question."

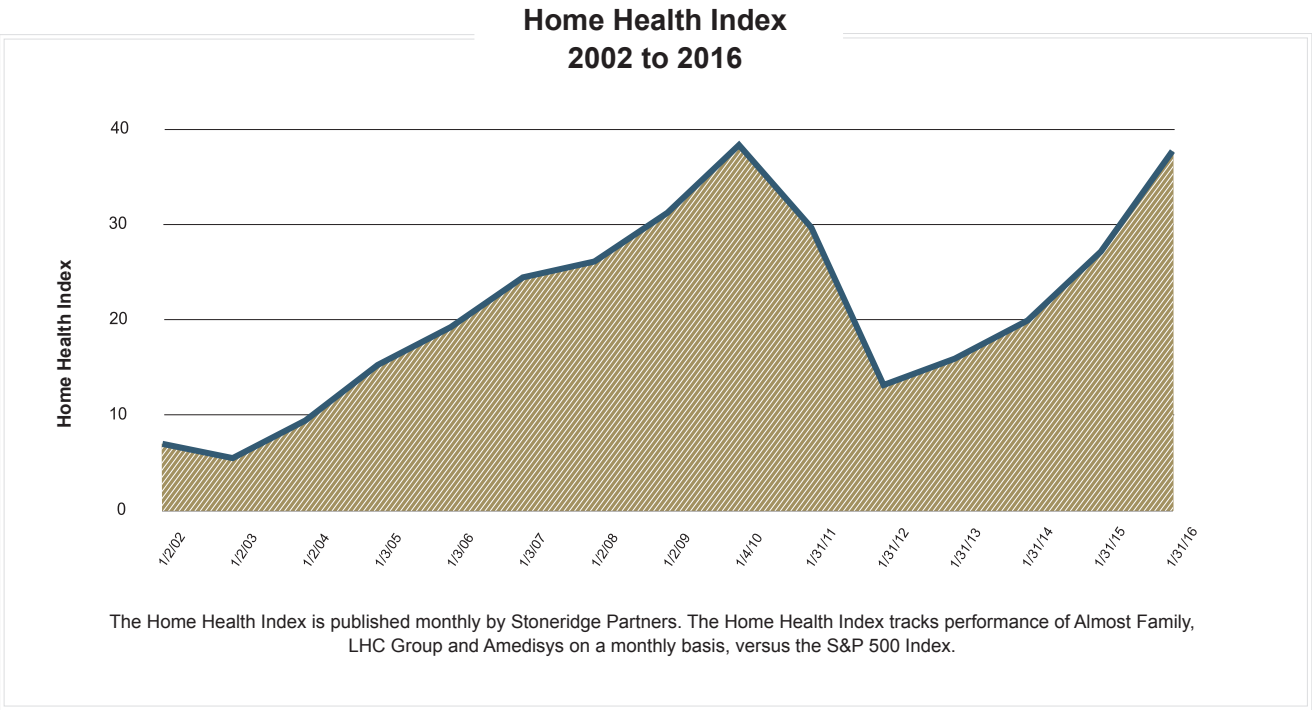
In this white paper, we explore market factors, as well as individual considerations that come into the decision making process.

The Top Four Factors

Valuation

As previously noted, pricing for home care companies is at an all-time high. Both private and public companies are setting new records as shown by recent transactions.

Stock market value of the three largest publicly held home health companies reached its highest level in April and surpassed that level in May, according to The Home Health Index published by Stoneridge Partners. The Home Health Index tracks performance of Almost Family, LHC Group and Amedisys on a monthly basis, versus the S&P 500 Index.



This indicates an unprecedented market for home care owners and operators.

“Both as a multiple of EBITDA and revenues, valuations are high,” Tinsley shares. “That alone is a reason to look at selling.”

Pricing is sensitive, however, and delaying a sale can be detrimental. A drop in gross profit, even seemingly small, can lead to a large drop in price. For example, a 10% loss in revenue can result in a price decrease of 50%. Many business owners are surprised to see this impact.

In its work with home health sellers, Stoneridge Partners forms an opinion on value, based on its proprietary market research. With more than 15 years in the industry, Stoneridge Partners has the largest database of the country’s home health transactions, including private deals. It uses this background and research to determine where assets are trading in the current market.

“We want the sales price to be as high as possible,” Tinsley says. “But, we are very upfront. One organization may sell at three to five times adjusted EBITDA, whereas another might go for one times revenue. Some companies have attributes that increase price while others do not.”

Emotional state of mind

Perhaps the most difficult of considerations for selling your home care business is your state of mind. It involves questions that owners must ask themselves:

- Are you emotionally ready to sell the business?
- Do you still have passion for the business?
- Is there an alternative to selling that may achieve the same financial goal?

- Is there a successor or a succession plan already in place? What will happen to that plan if you sell?

"Succession planning is one of the more emotional issues," Tinsley explains. "Who is going to take over? If you don't have a family member or someone to lead the business forward, that's part of what we help businesses through. If you're worried about your employees, we help find the right buyer who will maintain your culture and values."

For owners who do opt to remain owners, they must assess whether they are prepared to continue to grow the business.

"Hold and grow or sell and go," Tinsley advises. "Someone approaching retirement age should seriously ask themselves if they are really up to the task of growing their company."

Marketability

Record industry valuations don't necessarily carry into every geographic market. What are the costs of doing business and the demographics in your specific market? Are there barriers to entry in your state?

One factor is the state landscape for certificate-of-need licensing: The more restrictive the market, the higher the price that can often be garnered.

A buyer entering a new market for the first time will also be very interested in the structure and efficiency of the current management team. All buyers will be interested in how much of the business performance is driven by the existing staff and leadership.

"If performance is dependent upon the current leadership or the owner, that can lower the value of the business," Tinsley says. "Work on your business, not in your business in the event that you need to be replaced after a sale."

Prospective buyers may plan to run the business in its current form or to invest further by executing a growth plan upon the transaction. If the buyer plans to add a new business to the current one, that impacts marketability as well. Tinsley clarifies: "Simply put, it will change who we market the business."

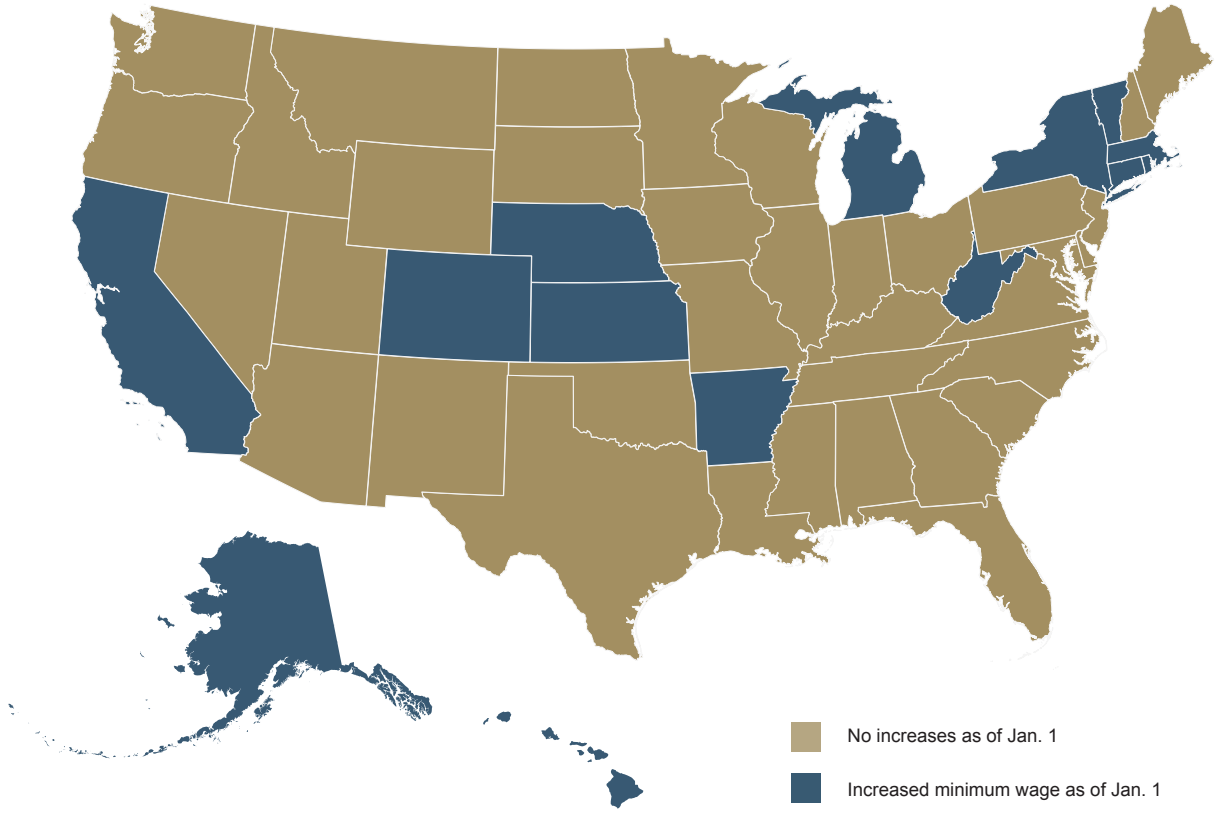
Regulatory and environmental pressures

As positive as the business environment and demographic growth for home care is in 2016, there are also many headwinds for home health operators due to regulatory pressures. Many of these stem from the Centers for Medicare and Medicaid Services (CMS). These factors should be a major consideration for both buyers and sellers.

Recently, two states have adopted a minimum wage standard of $15 and 14 states began the new year with higher wages, leading home care companies in those states to take a closer look at operations. Overtime rules are changing on the federal level, which also impacts home health operators nationwide.

"There is uncertainty around many labor issues," says Tinsley. "Rising regulatory scrutiny and increasing audits may be reasons to consider a sale. Reimbursement and payment changes are uncertain and should be considered as well."

States That Increased the Minimum Wage for 2016



Being Prepared for the "Right Time"

The right time is different for every business; but, taking a big-picture approach to all factors will help prospective sellers determine which time is right for them.

Typically, once the process begins, a transaction is closed within five to eight months. Engaging with an experienced and knowledgeable M&A advisory firm before you're ready to sell can help facilitate the process in the long run.

"Examine the market factors and the state of your business today, before you want to sell," advises Tinsley. "Right now, everyone is very happy with the demographic factors and the fact that most people want to stay at home to receive care. However, there's potential for some bumpy roads ahead with the changing payment climate. Those bumps can lead to very quick changes in the valuation landscape."

For more information, please contact rich@stoneridgepartners.com or call (800) 218-3944.