



## Why Private Equity Wants To Be 'In The Home' For The Long Haul

October 6, 2022

Private equity interest in home-based care has steadily increased over the years. The number of company names now preceded by "private equity-backed" in Home Health Care News stories is all the evidence you need.

I wondered if PE firms would back off during the period between the unfavorable proposed home health payment rule and the final rule. I also wondered if they would stay away if the final rule was in line with the proposed rule.

That could still be the case. I laid out why acquisitions from strategic buyers may be more sensical in this home health environment the other week.

But even strategic buyers are often fueled by PE money in some capacity. The larger home health companies – particular those categorized as "regionals" – generally have PE backing.

And even though PE tends to be more fastidious with its evaluation of companies – honing in on return on investment more than a standalone home health agency maybe would – I don't think a negative reimbursement adjustment will throw cool water on a hot M&A landscape.

**"A decade ago, private equity players were always reticent to step into the space because there's always the stroke-of-the-pen impact to industry valuation trends and reimbursement," Matt Caine, managing director at SOLIC Capital Advisors, told me. "But they have gotten over that. And they understand the market drivers."**

Just some of the most active PE firms in home health care that stand out to me include:

- The Vistria Group, a Chicago-based firm that has made a plethora of past investments in the home, and currently backs the home health provider Mission Healthcare, the home health technology company Medalogix and the personal home care provider Help at Home
- The Park City, Utah-based DW Healthcare, which recently invested in a self-directed at-home care company, Public Partnerships, and has made other at-home adjacent moves in the past
- The Atlanta-based Fulcrum Equity Partners, which has investments in the post-acute technology platform Olio Health as well as HomeFirst Home Healthcare
- The New York-based Dorilton Capital, which is invested in one of the fastest-growing home health providers, Traditions Health
- The Park City, Utah-based Tacoma Holdings and the Salt Lake City, Utah-based Cimarron Healthcare Capital, which are fresh backers of the new home health company Frontpoint Health

In this week's exclusive, members-only HHCN+ Update, I break down why it's possible that M&A in home health care will continue increasing, no matter the regulatory circumstances moving forward.

## A greater understanding

The conventional wisdom would suggest that PE players would back off the home health care industry if the Centers for Medicare & Medicaid Services (CMS) slashed reimbursement.

For a couple of reasons, that may not be the case.

**Firstly, as Caine mentioned, PE is less worried about the stroke-of-the-pen aspect compared to a decade ago, or maybe even five years ago. That may not be true for all sectors, but it's true with home-based care. Their bullishness on the setting outweighs any near-term losses that could be caused by that stroke of the pen.**

**"Broadly speaking, I think private equity and institutionally-backed providers will continue to be relatively aggressive," Caine said. "There may be some pullback, but I think they're going to continue to want to buy into a market that's facing some headwinds. So yes, there might be some decline in earnings power or liquidity. But if the broader market is seeing impacts to cash flows, that's typically the time to buy as opposed to holding or selling."**

A lot of that could be driven, too, by PE-home health provider partnerships that have been in the weeds together for some time now.

So while potential cuts pose an obvious risk to PE backers in terms of near-term earnings, the long-term outlook is rosy enough to stick around – and even take advantage of some current headwinds forcing other providers to sell.

**"There's continued growing demand and there's the graying of America," Caine said. "It's a pretty significant cut they're facing here. But that's sort of the bargain they've stepped into."**

**If there was any pullback in 2022 and 2023, Caine estimated it would be in the 5% to 10% range, and not in the 25% or higher range.**

**Caine's forecast – which he laid out to me this summer – already seems to be on point.**

Mark Kulik – The Braff Group's senior managing director – told me on stage at FUTURE that M&A numbers in 2022 were within 10% of 2021's in September.

"2021 saw a record year with 83 home health transactions taking place nationwide," Kulik said. "As we sit here today, if you annualize the first half of 2022, we're at 74. So we're close. We're within about 10% of last year's record activity."

There are also other ways to invest in the home without explicitly going after Medicare fee for service. The obvious alternative path is personal home care.

At the same time, two PE firms, Cimarron Healthcare Capital and Tacoma Holdings, just announced the recapitalization of the new home health provider Frontpoint Health.

Frontpoint Health is specifically catering its business to Medicare Advantage clients – not Medicare fee for service – which insulates it from rate cuts in traditional Medicare.

Either way, whatever path PE firms choose, it seems highly unlikely at this point that we will see a slowdown in PE-driven M&A over the next two years. If there is a slowdown, the PE firms that stuck with home health care will stand to benefit.

**“The trends are just undeniable,” Caine said. “While CMS is driving some cuts here, it’s still the lowest-cost area of care. There’s always this push to get the patient out of the higher-cost setting and into a lower-cost level of care. So home health is for where the action is going to continue to be supported.”**

#### **A final consideration**

To wrap up this week’s Update, I will play a little Devil’s advocate with myself. While there are plenty of reasons for PE firms to stay focused on the home, the private equity space as a whole is deploying less capital than prior years.

In the first half of 2022, middle-market private equity firms only fundraised \$55.6 billion across 70 funds, according to recent data from PitchBook highlighted by Fortune. While that’s nothing to sneeze at, since 2019, middle-market firms have managed to raise more than \$130 billion annually.

The median size of a middle-market PE deal has also dropped in 2022.

###