



Post-Acute Care Summary Report—May 2017

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1. Post-Acute Care—Current Landscape

PE Firms Look Past Uncertainty in Healthcare Market—For Now

The outlook for the healthcare industry remains unclear, thanks in large part to continued changes ushered in by the Affordable Care Act (ACA) and uncertainty regarding the Trump Administration's ability to change regulations.

While the Administration's first attempt to "repeal and replace" Obamacare fell flat, the GOP is continuing its efforts amid headwinds, signaling that the industry's regulatory uncertainty isn't removed, just yet.

Despite this air of uncertainty, private equity firms were still very much on the lookout for investment opportunities in 2016. There has been a slight pause in 2017, however, the outlook for post-acute care remains strong.

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1. Post-Acute Care—Current Landscape *(continued)*

Opportunities in Post-Acute Care Remain, Amid Uncertainty

[According](#) to a post-election survey conducted by Modern Healthcare, the majority of healthcare CEOs expect the ACA-driven march to value-based care model to continue even during the Trump Administration's reign.

With value-based healthcare becoming more than just a “buzzword,” CIT Healthcare Finance [claims](#) that it is now imperative for providers, if they want to succeed, to adjust their business models, adding that the changes taking place in the industry are leading to consolidation in highly fragmented segments, especially within post-acute care.

Because post-acute care remains for the most part fragmented and siloed from the rest of the healthcare system, this often results “in poor coordination of care, higher than normal readmission rates, and suboptimal patient outcomes,” Steve Burril at Deloitte [notes](#). But, from a private equity perspective, the need for greater integration is an opportunity for consolidation and investment.

Post-Acute Care Receives Push Under Current Regulation

Until recently, hospitals had no real incentive to direct patients to the highest quality, most appropriate post-acute care facility, since there was no accountability for what happened to patients once they left the hospital, [according](#) to Deloitte's Burril.

However, as a result of the Hospital Readmissions Reduction Program, the Medicare Access and CHIP Reauthorization Act of 2015 (MACRA), and the Medicare Bundled Payments for Care Improvement Initiative (BPCI), hospitals are now faced with financial penalties if patients are readmitted or have poor outcomes. Because they have to bear the financial burden for readmissions or poor outcomes, hospital executives now have an incentive to steer patients to better performing post-acute care organizations.

With risk-based programs in place, hospital executives, instead of letting case managers simply provide patients with a list of post-acute care facilities, will have to reconsider their post-acute care provider relationships, honing in on a smaller group of strategic partners to better control high-quality care, [suggests](#) Hospitals & Health Networks (HHN).

> Ownership vs. Partnership—Both Models Emerge, One Favored Over the Other

As HHN [notes](#), larger integrated health networks that already provide post-acute care services are expected to have an advantage when it comes to managing cost and quality. Executives at health systems that are not part of an integrated network will have to “establish relationships, processes and infrastructure to achieve coordination and control with trusted post-acute care partners,” it [adds](#). Burril [identified](#) two ways health systems can work with post-acute care providers, the latter of which could limit deal activity:

1. **Acquire or build** post-acute care services—allows for greater control, but requires scale, expertise and capital.
2. **Partner** with post-acute care organizations—a strategy that is emerging as the more favored strategy among hospital networks.

Post-Acute Care: Both an Opportunity and a Challenge

According to a healthcare executive [survey](#) by Premier, the transition to high value post-acute care will not only be a key focus area over the next three years, but it also presents the greatest challenge.

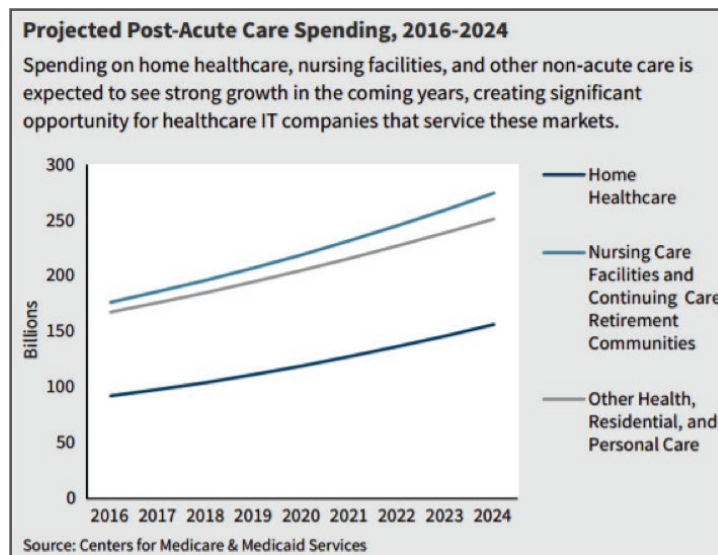


Source: Premier

A Focus on Technology

Meanwhile, investment banking firm William Blair [expects](#) technology will play a central role in helping post-acute care organizations handle the growing volume of care by fulfilling business functions like billing, scheduling and reimbursement, as well as providing digital platforms for these entities to communicate and share information.

The firm adds that the post-acute care market has underinvested in technological solutions compared to the primary and acute care sectors. Closing the gap could bring about efficiencies and improved outcomes for patients.



Source: William Blair

2. Post-Acute Care Investments—Private Equity

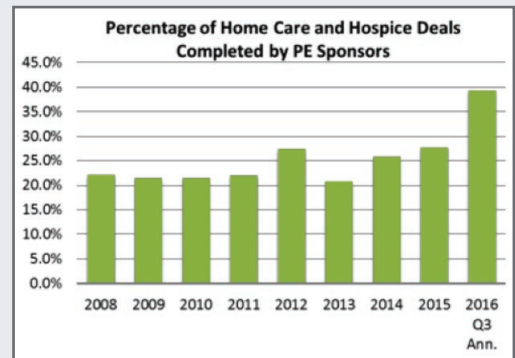
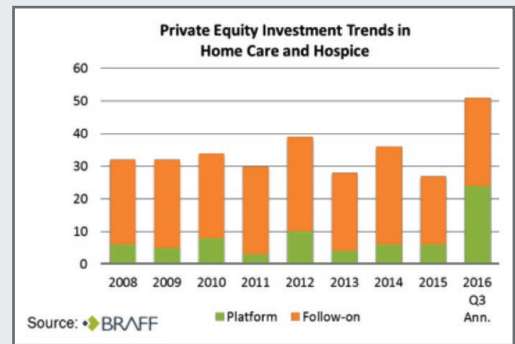
PE Appetite Favors Private Duty Companies, Home Care Technology

According to Home Health Care News PE firms continue to see great potential in the **home care and hospice market**. As of Q3 2016, PE firms were involved in 50 home care and hospice transactions for the year, compared with only 30 for all of 2015. Although this appetite isn't anything new (they've shown interest since 2008), a notable emerging trend is PE investors buying **private duty companies**—companies that in addition to supporting patients following a hospital or skilled nursing stay, might also serve as a first touchpoint for someone who will go on to receive more intensive levels of care in a particular network of providers.

Home care technology is also garnering PE attention, as advancements here help cut healthcare industry costs and help people age in place—a facet of the healthcare process that will become increasingly required amid an aging U.S. population.

Could See Increase in Exits of Personal Care Businesses

- **PE firms could start offloading their personal or home care businesses to large skilled nursing operators or population health enterprises**, a strategy that aligns with senior housing and care companies becoming more active acquirers of home health and hospice companies since the passing of the ACA. **However, there are certain headwinds to this exit strategy as the skilled nursing market could be seeing consolidation** (e.g., Genesis HealthCare and Kindred Healthcare's decision to [enter](#) a strategic collaboration—versus buying ancillary services, like home care.)



Source: The Braff Group

Notable PE Transactions

- **GuideWell Mutual Holding** [acquired](#) **PopHEalthCare**, a Temple, AZ-based company that partners with health plans and providers to deliver risk adjustment, care management and in-home care delivery programs.
- **Blackstone, Caisse de dépôt et placement du Québec** (Canada), the **Public Pension Investment Board** (Canada) and the **National Pension Service of Korea** [acquired](#) **TeamHealth**, a healthcare company that offers outsourced solutions, including in the post-acute care space, in a take-private deal valued at \$6.1 billion. As a result of the transaction, Team Health is no longer listed on the NYSE.
- Epic Health Services, a provider of home healthcare services to children, [signed](#) an agreement to be acquired by **Bain Capital Private Equity**. The acquisition of Epic Health Services from **Webster Capital** closed during the first quarter of 2017.
- **Cindat Capital Management** and **Union Life Insurance** [acquired](#) a 75% stake in 28 long-term and post-acute care facilities in New England and the Mid-Atlantic. **Welltower**, a REIT that owns the real estate for these assets, will retain a 25% stake. Welltower estimates the aggregate value of the joint venture to be \$930 billion.
- **Blue Wolf Capital** made an [undisclosed investment](#) in **Great Lakes Caring Home Health and Hospice**, a Jackson, MI-based provider of in-home post-acute services. With the transaction, **Wellspring Capital Management** exited Great Lakes Caring.
- **CIP Capital** portfolio company **OnCourse Learning** [acquired](#) the Vancouver, WA-based **Institute for Professional Care Education**, a provider of training and compliance solutions for post-acute care providers like assisted living communities, home care and home health agencies.

3. Post-Acute Care Investments—M&A

M&A Activity—A Look Back at 2016

M&A activity in the healthcare services industry was relatively active throughout 2016, with deal volume increasing 1% year over year from 935 transactions in 2015 to 942 transactions in 2016, [according](#) to Irving Levin Associate's *Health Care Services Acquisition Report* (available for purchase). The dollar value of these deals, on the other hand, dropped significantly, down 49% from \$140 billion in 2015 to \$72 billion in 2016. The home health and hospice sector and the rehabilitation sector both saw an upswing in activity (up 12% and 20%, respectively), while the long-term care and managed care sectors both experienced decline (down 6% and 53%, respectively).

The industry's embrace of value-based care continues to be a beacon of light within the industry, and the decline in long-term care activity, in particular, is being attributed to "a bull market finally pausing for breath," according to the report's editor, Lisa Phillips.

2017 M&A Activity in Certain Segments Takes a Pause

Phillips says, in 2017, those sectors that were impacted by the ACA will likely be those that are impacted by its replacement. "We're seeing dramatic declines in M&A in the managed care and hospital sectors, early in 2017 ... Depending on the final legislation, more sectors could be impacted."

Notable M&A Transactions

- Following a long hiatus from dealmaking, home health giant **Amedisys** is once again [pursuing](#) acquisitions to expand its geographic footprint and add personal-care services to its traditional skilled-nursing offerings. Among reported transactions:
 - Through its subsidiary **Associated Home Care**, the company [acquired](#) **Home Staff**, a personal care provider located in Worcester, MA. Through the transaction, Associated Home Care acquired most of the assets of Home Staff from **Fallon Health** and **VNA Care Network**.
 - More recently, Amedisys [signed](#) an agreement to acquire home healthcare centers and hospice operations in Arizona, Illinois, Massachusetts and Texas from **Tenet Healthcare**.
- New York City-based **Post Acute Partners Acquisition** [announced](#) it will purchase Lockport, NY-based nursing home **Odd Fellow & Rebekah Rehabilitation and Health Care Center** for \$10 million.
- The **Ensign Group**, which operates subsidiaries in the post-acute care industry, [acquired](#) the real estate and operations of **Parklane West Healthcare Center**, a 124-bed skilled nursing and 17-bed assisted living facility located in San Antonio, Texas.
- **Blue Wolf Capital** [acquired](#) Scarsdale, N.Y.-based **National Home Health Care** for \$65 million. Through its subsidiaries, National Home Health Care provides personal care and home health care services the New York metro area, Connecticut and northern New Jersey. It also provides medical, behavioral health and pediatric skilled nursing and other services across Massachusetts and Connecticut.

- Healthcare software company **Casamba** [merged](#) with two other software companies in the post-acute care industry, Boston-based **HealthWyse** and Birmingham, AL-based **Therapy Source**.
- **Allscripts** [acquired](#) Boston-based **Careport**, a company that provides a software solutions for post-acute care providers. Careport's post-acute outcomes management platform will expand the capabilities of Allscript's population health management solution.
- **Steward Health Care** is expanding beyond Massachusetts with the acquisition of hospitals in Ohio, Pennsylvania and Florida, but has [plans](#) to acquire outpatient and post-acute care facilities as well.

4. Insights—Looking Ahead

What's Next?

- As noted, the healthcare industry continues to face regulatory uncertainty. However, that doesn't appear to be holding back private equity appetite just yet, particularly within the post-acute care segment, as many believe the shift to value-based care won't stop even amid any regulatory changes under the Trump administration.
- Certain (likely larger) healthcare networks seeking the greatest level of control over post-acute care will look to acquire post-acute care facilities and capabilities.
- Post-acute care remains one of the most fragmented segments of the healthcare industry, leaving lots of opportunity for PE firm investment.
- The home care and hospice markets are receiving increased attention, however PE firms looking to exit investments could face headwinds—as the skilled nursing market, which has been an active acquirer of home health and hospice companies is starting to experience consolidation, versus acquiring ancillary services.
- Technology supporting post-acute care services will be a sweet spot for investment, as both health systems and post-acute care facilities aim to move to higher value, while at the same time controlling costs.
- As regulatory changes—if any—come to fruition, this will add clarity to the market and could drive additional activity. Similarly, should regulation force any redirection away from value-based care, the segments of the post-acute care market which were most impacted by the shift to value-based care, will ultimately be most impacted by a shift away from it.

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