

# Home Healthcare – Sellers Command Premiums

## Recent Deal Notables

**American Homecare Supply acquires Home Health Care Services for \$165mm.** Home Health Care Services is the largest private respiratory and home medical equipment provider in West Virginia. The acquisition fits with American Homecare Supply's goal of expanding along the Northeast corridor.

**Gentiva acquires First Homecare-Houston for \$1.3mm in cash.** First Homecare-Houston is a Medicare and private duty home nursing agency generating annual revenues of about \$2mm. The acquisition is expected to give Gentiva greater reach throughout the Houston area, and reflects its focus on strengthening its presence in large population centers.

**National Home Health Care acquires assets of Professional Relief Nurses Inc for \$1.2mm.** Professional Relief Nurses Inc. is a Medicare-certified and licensed home health care company in Connecticut. The acquisition complements National Home Health Care's existing operations in Connecticut and expands its market share there.

**Crdentia Corp announces the acquisitions of New Age Staffing and Nurses Network Inc.** New Age Staffing operates a per-diem and travel nursing company, and Nurses Network provides licensed staff for home healthcare visits. The acquisitions support Crdentia's goal of creating a national homecare staffing agency. Terms were not disclosed.

**Midmark Capital acquires The Promptcare Companies for \$7mm of preferred and common stock.** The Promptcare Companies, formerly part of Allied Healthcare, provide home medical equipment and services. Allied divested the business unit in order to focus on healthcare staffing services.

## Sector Snapshot

**Baby-boomers Fuel Demand:** This large, aging sector of the population is driving demand for niche homecare services such as: respiratory therapy, infusion therapies, and nursing and patient monitoring. Longer life expectancies mean increased duration of service, particularly in the respiratory therapy sector.

**Consolidation on the Horizon:** This is a seller's market for small and regional homecare providers seeking liquidity. Buyers are currently paying premium valuations for private companies that offer a footprint into new markets or augment coverage in existing markets.

**Medicare Reimbursement Uncertainties:** While the home healthcare industry has been relatively sheltered from cuts in Medicare reimbursements, threats of future co-payments and competitive bidding for medical equipment loom on the horizon. Smaller companies and those relying heavily on Medicare for revenues might find their margins squeezed and competition difficult.

**Technological Advances:** Important technological advances have made medical instruments and equipment easier to use by nurses and patients, thereby enabling more medical services to be administered in the comfort of the home.

**Cost Advantages:** Managed care companies are viewing the home healthcare sector as an attractive alternative to expensive hospital visits. The average day at a hospital can cost as much as 2.5 times a day of homecare.

## Public Equities

Company Name	Operating Data			Valuation Data			
	EBITDA Margin	EBIT Margin	Earnings Margin	EV / Revenue	EV / EBITDA	EV / EBIT	Market Cap / Earnings
<b>Homecare Services</b>							
Allied Healthcare International Inc. (ADH)	7.4%	7.4%	2.7%	0.9x	13.0x	13.1x	11.8x
Amedisys, Inc. (AMED)	7.9%	5.7%	NM	0.5x	6.1x	8.5x	NM
Genesis Health Ventures (GHVI)	8.2%	5.8%	1.9%	0.5x	6.4x	8.6x	15.7x
Gentiva Health Services (GTIV)	2.8%	1.9%	21.3%	0.2x	6.3x	9.2x	1.5x
National Home Health Care (NHHC)	10.6%	9.7%	5.9%	0.3x	2.5x	2.8x	6.9x
<b>Average</b>	<b>7.4%</b>	<b>6.1%</b>	<b>8.0%</b>	<b>0.5x</b>	<b>6.9x</b>	<b>8.4x</b>	<b>9.0x</b>
<b>Median</b>	<b>7.9%</b>	<b>5.8%</b>	<b>4.3%</b>	<b>0.5x</b>	<b>6.3x</b>	<b>8.6x</b>	<b>9.4x</b>
<b>Harmonic Mean</b>	<b>6.0%</b>	<b>4.5%</b>	<b>3.6%</b>	<b>0.3x</b>	<b>5.2x</b>	<b>6.4x</b>	<b>4.1x</b>
<b>Homecare Equipment</b>							
Apria Healthcare Group Inc. (AHG)	24.0%	14.5%	9.4%	1.3x	5.2x	8.7x	11.4x
Lincare Holdings Inc. (LNCR)	39.7%	33.2%	19.9%	3.9x	10.2x	11.7x	18.5x
ResMed Inc. (RMD)	29.7%	25.1%	16.9%	5.4x	18.2x	21.6x	31.9x
Respironics, Inc. (RESP)	20.6%	14.5%	6.9%	2.2x	10.1x	15.0x	31.6x
Rotech Healthcare Inc. (ROHI)	23.8%	13.2%	3.1%	1.4x	7.1x	12.8x	NM
<b>Average</b>	<b>27.6%</b>	<b>20.1%</b>	<b>11.2%</b>	<b>2.8x</b>	<b>10.2x</b>	<b>13.9x</b>	<b>23.3x</b>
<b>Median</b>	<b>24.0%</b>	<b>14.5%</b>	<b>9.4%</b>	<b>2.2x</b>	<b>10.1x</b>	<b>12.8x</b>	<b>25.0x</b>
<b>Harmonic Mean</b>	<b>26.2%</b>	<b>17.6%</b>	<b>7.3%</b>	<b>2.1x</b>	<b>8.5x</b>	<b>12.7x</b>	<b>19.5x</b>

EV = Enterprise Value = (Market Cap + Net Debt + Minority Interest + Preferred Stock)

Sources: CapitalIQ and company data

## Acquirers on the Hunt

**Medical staffing consolidator** looking to remedy the current nursing shortage; actively seeks all types of nursing/staffing agencies and registries with revenues of \$2-20 million for acquisitions.

**Large oxygen-supply and chemical company** seeking bolt-on acquisitions to expand its recent entry into the home healthcare market, particularly in the western part of the US.

**Major respiratory therapy company** looking to spur growth by strategic acquisitions of homecare service companies, ideally with \$5-8mm in revenues.

**Private equity firm** seeks to acquire significant ownership positions in stand-alone, middle market home healthcare companies with revenues between \$20-200mm.

**Large respiratory therapy company** seeks homecare companies that possess a geographic fit with its packaged gas and hospital business, a large percentage of respiratory business (greater than 60%), and good billing and compliance practices.

**Single-source homecare solution company** looking to expand its geographic reach into large population centers by acquiring homecare staffing companies with more than \$5mm in revenue.

**Large homecare services company** looking for multi-site, metropolitan-based homecare service providers to expand both market share and coverage to contiguous markets.

