302. How to Increase the Value of Your Agency
How to Increase the Value of Your Agency

Continuing Education

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- Nurse attendees may earn a maximum of 15.5 contact hours
- Accountant attendees can earn up to 18.9 CPEs

Accreditation Statement
NAHC is accredited as a provider of continuing nursing education by the American Nurses Credentialing Center’s Commission on Accreditation.
NAHC is [also] approved by the California Board of Registered Nursing, provider #10810.

Commercial Support provided by Brightree, Excel Health Group, Healthcare Provider Solutions, and Simione Healthcare Consultants.
Hospice Deal Trends

Source: The Braff Group

Most Widely Used Valuation Formula:
Or...How to Increase the Value of your Agency

Income & Growth

\[ \times \]

Assessed Risk

= Value
Determinants of Value: a Buyer’s View

Value Is Increased Or Decreased By Toggling Any Of These Variables:
Income and Growth are Tied Together

Growth and Income: Trends Matter

same income; 3 very different valuations
Which Risks most impact my company’s valuation?
“Environmental Risks” Impact Value...  
...But Cannot be Mitigated by Management

- Broad changes in the economy
- Changing interest rates and access to debt
- Emerging health care delivery models
- Technology encroachment
- Success or failure of large providers and consolidators
- Alternative investment opportunities
- Health care economic and reimbursement policy

MA & Hospice “Carve In”:  
...Winners & Losers

“As an organization, NAHC has largely opposed a broad hospice MA carve-in”, Theresa Forster, NAHC VP for Hospice Policy said.

“We have a host of concerns based on our home health members’ experience with Medicare Advantage,” she said. “These include the fact that many plans do not offer the same home health benefit as is provided under fee-for-service, pay reduced rates for coverage, require prior authorization and are extremely late in making payment. These issues are very troublesome.”

Additionally, MA plans have strong incentives to secure care at the lowest cost possible, Forster said, noting that incentives are not balanced out by quality measures that make the plans accountable for supplying high-quality, well-coordinated care for patients with advanced and terminal illness. NAHC also has concerns about possible tensions that may arise between determinations of need made by the hospice interdisciplinary team and the MA plan about coverage of services and supplies — including different levels of care.

Home Health Care News January 18, 2019 by Robert Holly
Top 10 “Company Specific Risks”... that can be mitigated by Management

1. Sustainable Revenue & Income
2. Business Controls – Financial Statements & KPI’s
3. EBITDA Addbacks
4. Referral Source Diversity
5. Payor Contracts
6. Compliance
7. Management Infrastructure
8. Employee Turnover
9. Employee Non-Compete/Non-Disclosure/Non-Solicitation
10. The Visuals
   ...and 2 Valuation “Insurance” Suggestions

1. Sustainable Revenue & Income

$13.3B Sales 13.2% EBITDA $122B Mkt Cap 69x Multiple

DJA 11.37x
S&P 500 19.33x
Russell 2000 16.44x
Bloomberg as of 6/26/19
1. Growth Must Be Sustainable

- In order to generate incremental value, growth must be:
  - **Specific** – tied to definable initiatives
  - **Repeatable** – not a one time event
  - **Institutionalized** – built into the DNA of the company.

1. Growth: Converting to Value

**Growth and Multiples:**

Buyers tend to **under compensate** for hyper growth

Buyers tend to fully value for growth when it is in the range of 10-20% for a “mature” business

With market growth “baked-in”, buyers make little adjustment for growth up to +/- 10%

(NOTE: US >65 population avg. 3% growth per year.)
1. Income Guidelines:

- Broad Industry Performance....
  - Hospice Gross Margin 47% - 53%
  - (HHA Gross Margin 45% - 50%)

- Adjusted EBITDA.....
  - Hospice AEBITDA 14% - 20%
  - (HHA AEBITDA 12% - 16%)

Note: these are broad industry ranges subject to size, location, payor mix, etc.

2. Business Controls – Financial Statements:

- Ideally have the last 2+ years available
- Based upon your revenues;
  - Compiled financials: $0 – $5 Million
  - Reviewed financials: $5 - $20 Million
  - Audited financials: $20+ Million

- Understated #’s ...will cost you $$$$$$
- Incorrect #’s ...will cost you $$$$$$
- Undocumented #’s ...will cost you $$$$$$
2. Business Controls - KPI’s

- Measurable
- Consistent
- Business Drivers

3. EBITDA Add-Backs

- Keep to a minimum
- Should never exceed 50% of your EBITDA
- Limit
  - Legal
  - Employee Morale
  - Contributions
  - Personal T & E
  - Family Employment
  - Other
- “Less is More!”
4. Referral Source Diversity

“The 10% Standard”

5. Payor/Vendor Contracts

• Revenue Concentration
• Predictable Revenue
• Profitable Revenue

Are your contracts automatically assignable or do they require prior transaction approval?
6. Compliance

Compliance failures don’t just lower the value of deals, they stop deals dead in their tracks!

Clinical Compliance:
A. State Survey last month
B. 3rd Party Accreditation
C. 15 yr. Loyal Dedicated DON
D. None of the Above!!

Human Resource Compliance:
A. State & Federal
B. Wage & Labor Law
C. 401(k)
D. All of the above!!

7. Management Infrastructure

Sales, Clinical/Compliance, Operations....and bench strength!
7. Management Infrastructure

“The senior leadership team is critically important to the ultimate valuation of the company. As an organization scales, you have to consider what kind of executive you need on the revenue band.”

Scott Herman, CEO of Elara Caring, formerly Great Lakes Caring/Jordan Health Services/National Home Health Care, (owned by Blue Wolf Capital and Kelso & Company).

8. Employee Turnover

- Do you monitor it?
- Do you measure it?
- Do you have a strategy/plan to minimize it?
9. Employee Non-Compete/Non-Solicitation/Non-Disclosure

- At least for each of your direct reports
- Have them sign during their next annual performance review

10. The Visuals

Clean, organized, professional office communicates....
.....a clean, organized, professional business
“Valuation Insurance”: Suggestions...

#1: Pre-GTM Due Diligence

- Pre GTM Due Diligence
- **Start >1 yr. prior to sale – preferably 3 years prior**
- Hire impartial 3rd party
- Consider it insurance against a bad or failed deal
- Review:
  - Clinical documentation
  - Coding
  - Employee Files
  - State & Federal Labor Laws
#2: Key Management Retention

A strategically developed “stick around” bonus program reduces risk that key management remains in place ....
Highly valued by Buyers

Questions/Comments?

Thank you!

INTELLIGENT DEALMAKING IN HEALTH CARE M&A

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“Perfect Time to Sell” Construct...

Decision Sphere One: M&A Market Dynamics

Decision Sphere Two: Position on Growth Curve

Decision Sphere Three: Personal Goals and Objectives

Private Equity Investment in Hospice

Source: The Braff Group