

# HOME HEALTH & HOSPICE

## Sector Overview and Observations

JANUARY 2024 | SUMMARY REPORT | FOR FULL REPORT EMAIL [JALLGOOD@BRENTWOODCAPITAL.COM](mailto:JALLGOOD@BRENTWOODCAPITAL.COM)

# BCA POST-ACUTE INVESTMENT BANKING

## Premier Middle-Market, Growth-Focused Healthcare M&A and Capital Raising Advisory

**Brentwood Capital Advisors** is a healthcare-focused investment bank headquartered in Nashville, TN with extensive transactional experience in the post-acute care sector across both services and technology. BCA believes that post-acute care has strong tailwinds, and we have a long history of representing quality companies as they look to evaluate strategic alternatives while preserving the legacy of their company. As we build on our long track record in post-acute care, we seek to advise and represent management teams as they navigate the growing and rapidly consolidating sector.

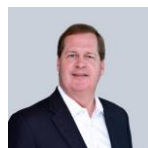
### *Representative Experience in Post-Acute Services and Technology:*

<div>Pending</div> <div>Strategic Buyer</div> <div>Acquisition of</div> <div>Project Bear</div> <div>Home Health &amp; Hospice</div>	<div>2021</div> <div></div> <div>Sale to</div> <div></div> <div>Home Health &amp; Hospice</div>	<div>2021</div> <div></div> <div>Acquisition of</div> <div></div> <div>CRM &amp; Market Insights</div>	<div>2021</div> <div></div> <div>Sale to</div> <div>DAC Acquisition, LLC</div> <div>Skilled Nursing</div>	<div>2021</div> <div></div> <div>Investment from</div> <div></div> <div>Market Intelligence &amp; Insights</div>	<div>2021</div> <div></div> <div>Sale to</div> <div></div> <div>Home Health &amp; Hospice</div>	<div>2021</div> <div></div> <div>Acquisition of</div> <div></div> <div>Talent &amp; Experience Mgmt.</div>
<div>2021</div> <div></div> <div>Acquisition of</div> <div></div> <div>Home Health Analytics</div>	<div>2021</div> <div></div> <div>Acquisition of</div> <div></div> <div>Hospice Analytics</div>	<div>2021</div> <div></div> <div>Sale to</div> <div></div> <div>Performance Improvement</div>	<div>2021</div> <div></div> <div>Sale to</div> <div></div> <div>Performance Improvement</div>	<div>2020</div> <div></div> <div>Sale to</div> <div></div> <div>Home Health &amp; Hospice</div>	<div>2018</div> <div></div> <div>Sale to</div> <div></div> <div>Home Health &amp; Hospice</div>	<div>2012</div> <div></div> <div>Sale to</div> <div></div> <div>Home Health &amp; Hospice</div>



**L.A. Galyon IV**  
Managing Partner  
Healthcare Services

615.224.3815  
[lagalyon@brentwoodcapital.com](mailto:lagalyon@brentwoodcapital.com)



**Michael Ory**  
Managing Director  
Healthcare Services

615.905.8028  
[mory@brentwoodcapital.com](mailto:mory@brentwoodcapital.com)



**John Allgood**  
Director  
Healthcare Services

615.224.3818  
[jallgood@brentwoocapital.com](mailto:jallgood@brentwoocapital.com)



**Patrick Price**  
Director  
Healthcare Services & Technology

615.224.3825  
[pprice@brentwoodcapital.com](mailto:pprice@brentwoodcapital.com)



**Kyle Witty**  
Director  
Healthcare Services & Technology

615.224.3817  
[kwitty@brentwoodcapital.com](mailto:kwitty@brentwoodcapital.com)

# HOME HEALTH & HOSPICE MARKET

Highly fragmented with strong underlying tailwinds and demand drivers

## Home Health

### Estimated Size & Growth



Short-term, physician-directed nursing and/or therapy provided in a beneficiary's place of residence

**\$56.5B**

Market  
Size

**8%+**

Market  
CAGR

## Hospice

### Estimated Size & Growth



End-of-life care designed to improve the comfort and quality of life for patients in the final phase of terminal illness

**\$20.2B**

Market  
Size

**6%+**

Market  
CAGR

## Sector Tailwinds

- **Growth in U.S. Medicare-Eligible Population:** Overall Medicare spending growth expected to increase by over 7% annually through 2027.
- **Increasing Prevalence of Chronic Conditions:** Over 85% of adults age 65+ have at least one chronic condition; home health offers a cost-effective means of managing these illnesses and improving outcomes.
- **Lowest-Cost Care Setting:** Daily costs average ~5% of acute care and ~20% of a skilled nursing facility; strong underlying trend from both payers and hospitals to move patients out of facilities into homes.
- **Patient Preference:** In 2021, over 80% of adults reported a preference for receiving any “post-hospital, short-term healthcare” at home rather than in a facility.

## Sector Tailwinds

- **Growth in Medicare Decedents:** Growth in the Medicare population will continue to drive growth in Medicare decedents; an estimated 13% to 25% of all Medicare costs are spent on patients in their final year of life.
- **Rising Utilization:** Utilization of hospice services increased from 25% in 2000 to 51% in 2018 and is expected to reach 67% by 2035 fueled by payor and policymaker incentives to reduce the cost of care for terminally ill patients.
- **Lowest-Cost Setting for Highest Cost Population:** Hospice care cost is dramatically lower than other end-of-life options; the last year of medical care typically accounts for 44% or more of the individual's lifetime medical spend.

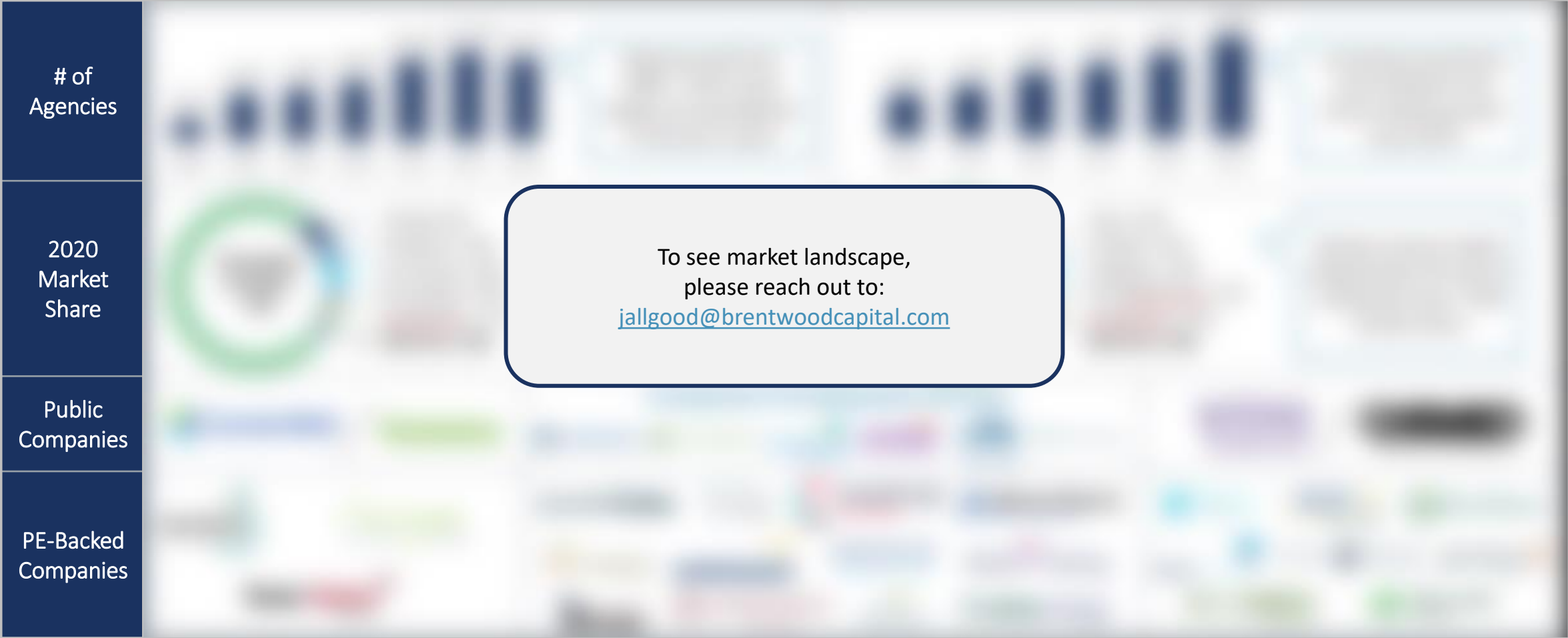
- **Market Fragmentation:** Despite significant investment activity and consolidation across Home Health & Hospice in the past 10 years, both markets remain highly fragmented. Federal reimbursement changes and competition from well-capitalized and growth-oriented PE platforms are driving small, privately owned operators to seek exits.

# HOME HEALTH & HOSPICE INDUSTRY LANDSCAPE

Despite significant increasing M&A activity, the market remains fragmented

Home Health

Hospice



# PUBLIC COMPANY PROFILES

Wide variation in trading multiples due to scale, growth rates, margin profile and sector focus



Equity Value	\$1,461	\$3,063	\$507	\$539	\$401
Net Debt / Leverage	\$137 / 1.2x	\$412 / 1.6x	\$1,295 / 9.9x	\$587 / 5.2x	\$316 / 8.2x
Enterprise Value	\$1,598	\$3,475	\$1,802	\$1,126	\$717
Locations	220	521	274	364	154
LTM Revenue / NTM % Δ	\$1,029 / 9.1%	\$2,228 / 2.7%	\$1,868 / 4.2%	\$1,049 / 1.2%	\$524 / 7.5%
LTM Adj. EBITDA / Margin	\$114 / 11.0%	\$250 / 11.2%	\$130 / 7.0%	\$113 / 10.8%	\$39 / 7.4%
EV / Revenue	1.6x	1.6x	1.0x	1.1x	1.4x
EV / Adj. EBITDA	14.1x	13.9x	13.8x	10.0x	18.5x
Revenue by Service Line <sup>(1)</sup>					

■ Home Health ■ Hospice ■ Personal Care ■ Private Duty ■ Other

Source: Pitchbook market data as of 12/7/23. \$'s in millions, except per share data.  
 (1) Aveanna reports Home Health & Hospice in aggregate

# PUBLIC COMPANY HISTORICAL VALUATION TRENDS

Valuations have reverted to the mean after spiking during the 2018 – 2021 time period



## Market Observations

- Prior to 2018, public home health & hospice companies traded between 10 – 15x LTM EBITDA.
- From 2018 to 2022, valuations spiked and reached a peak median LTM / EBITDA multiple of >30x.
- The valuation gains were driven by:
  - Increasing investor interest in the sector due to macro conditions (aging population growth, shift in preference to home-based care, healthcare cost containment initiatives).
  - Rising M&A activity by public companies taking advantage of the highly fragmented market.
- Valuations decreased starting in the 2H21 and have reverted closer to historical levels due to:
  - Staffing challenges and rising wages, which are compressing EBITDA margins across the sector, and in some cases, causing smaller providers to close their doors.
  - Greater competition in the sector and less greenfield opportunity due to the formation of numerous PE platforms.
  - Possibility of unfavorable reimbursement changes.
  - COVID-related valuation support for home care models has subsided.

## NOTABLE RECENT HOME HEALTH & HOSPICE TRANSACTIONS

[illegible][illegible]

# VALUATIONS FOR HOME HEALTH & HOSPICE M&A TRANSACTIONS

Platform transactions and strategic add-ons have traded at a 14.6x median EBITDA multiple

PE Platform Acquisitions

Strategic Acquisitions

To see industry valuations,  
please reach out to:  
[jallgood@brentwoodcapital.com](mailto:jallgood@brentwoodcapital.com)



# HOME HEALTH & HOSPICE VALUE CREATION LEVERS

Market participants use a similar playbook to drive growth, increase margin and deliver shareholder value

## Organic Growth

## Inorganic Growth

## Upside

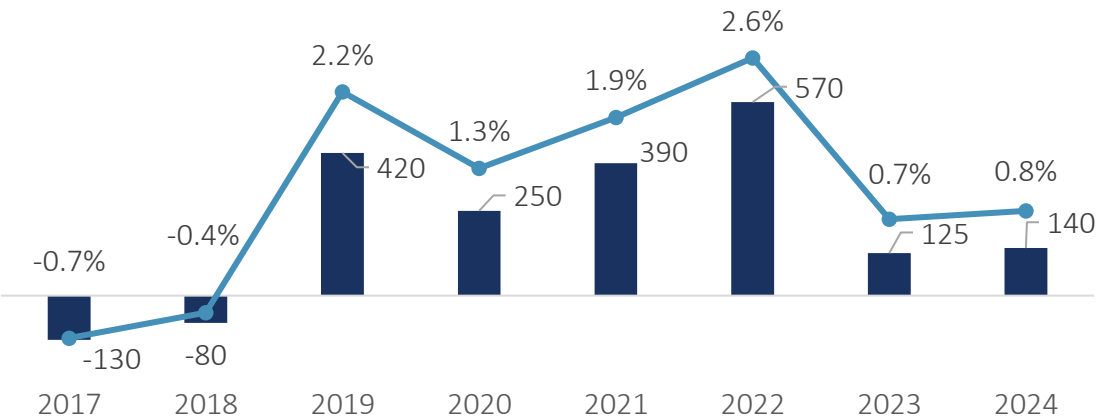
To see growth levers,  
please reach out to:  
[jallgood@brentwoodcapital.com](mailto:jallgood@brentwoodcapital.com)

# REIMBURSEMENT HISTORY

Rate expansion not keeping up with margin pressure from labor headwinds

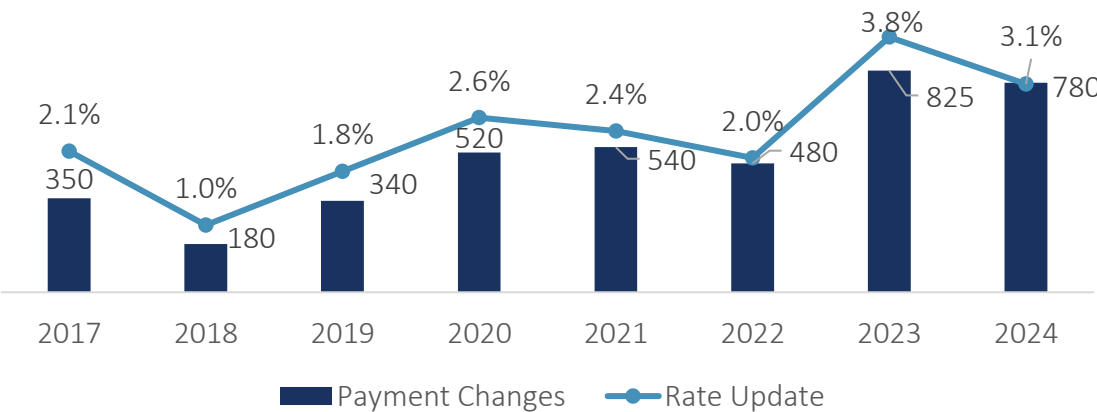
## CMS Home Health Rate Increases

- Medicare home health services rates will increase 0.8%, or \$140 million compared to 2023, in 2024, which is a favorable outcome compared to the proposed rule for CY 2024 reimbursement, which was a decrease of 2.2% from 2023 levels
- 2024 is the second consecutive year that CMS has proposed a meaningful cut to Home Health reimbursement but ended up giving a small increase in its final rule.
- Notably, CMS continues to suggest that Home Health agencies have been overpaid by about \$3.5 billion from 2020 – 2022, which means future claw backs are still on the table.



## CMS Hospice Rate Increases

- CMS FY 2024 hospice reimbursement represents a 3.1% (\$780 million) net increase to payments compared with FY 2023. This includes a 3.3% market basket update and a 0.2% cut for productivity.



# MEDICARE ADVANTAGE ADOPTION

Increasing share of eligible Medicare beneficiaries enrolled in Medicare Advantage will transform home health & hospice

Medicare Advantage Enrollment



Medicare Advantage Penetration by County



To see Medicare Advantage information,  
please reach out to:  
[jallgood@brentwoodcapital.com](mailto:jallgood@brentwoodcapital.com)

## Notes:

Medicare Advantage enrollment is projected to grow significantly over the next decade, driven by the growing popularity of managed care and the increasing number of Medicare Advantage plans available. This will have a significant impact on the home health and hospice industry, as Medicare Advantage enrollees are more likely to receive care through managed care organizations.

## Source:

Source: Medicare Advantage enrollment data from the Social Security Administration. The data is based on the number of Medicare Advantage enrollees in the United States. The data is presented in millions of beneficiaries. The data is presented in millions of beneficiaries. The data is presented in millions of beneficiaries.