

## Our Take on Mergers and Acquisitions? Relationships, Relationships, Relationships

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### Who's Acquiring Home Healthcare Agencies?

**A**cquisition activity in 2006 reached another record high for home health care. The beginning of 2007 seems to be moving in the same direction and picking up steam quickly. Wyatt Matas & Associates expects continued interest from a variety of buyers to continue into the late part of 2007. This amount of acquisition activity has brought in an interesting mix of buyers including those that currently own their own agencies, individual buyers with considerable access to capital, as well as private equity buyers looking to capitalize on the dramatic growth opportunities in home health care.

Owners considering selling their agency should understand the nuances of these different buyers. Determining what type of buyer that would best fit their company's targets as well as the owners' personal goals for exiting the business is critical. Deciding which buyers to pursue can greatly affect how long it will take to sell the agency, what the valuation will be and how the employees are treated post acquisition.

#### Strategic Buyers vs. Financial Buyers

##### Strategic Buyers

Strategic buyers, also known as "in-the-industry buyers," typically look for selling companies that fit into a long term business plan. In addition to the implied value of the acquired company's cash flow, the target (selling) company is worth something more to a strategic buyer. The worth could include a number of factors such as access to the selling companies management, marketing talent, field staff and referral sources. In addition it could also be part of a strategic plan of vertical expansion (for home care, this could mean buying and integrating a hospice, private duty, or DME company.)

Another factor, geographical expansion, allows the acquirer to leverage their corporate and back office functions and technology platforms to run branch activities at extremely low cost as com-

#### Strategic vs. Financial Buyers At-a-Glance

##### Strategic Buyers

- Acquisitions that fit a long-term business plan
- Vertical expansion
- Geographical expansion
- Desire synergies through a central back-office
- Access to field staff and referral sources

##### Financial Buyers

- Interested in returns achieved from acquiring the business
- Have flexibility and creativity to move quickly to close
- Likely to retain current personnel

pared to hospital home care providers or other one or two branch owned agencies. This makes the acquirer more attractive to investors or other potential strategic or financial buyers that may be looking to make a large acquisition. The flurry of acquisition activity across the Sunbelt has moved a large number of non-publicly traded strategic buyers to focus their growth initiatives to the mid-West and mid-Atlantic. Wyatt Matas & Associates expects this trend to continue into 2007, and also expects to see large strategic acquirers acquiring mid-sized agencies in the middle of the country.

Strategic buyers are usually willing to pay for readily realizable synergies, and sometimes even speculative synergies. However, they are less likely than financial buyers to retain 100% of the personnel. There is also a potential risk, when dealing with strategic buyers, of releasing confidential information about the business to the buyer, who can often be a competitor.

*Wyatt Matas & Associates usually advises our clients not to expose their businesses to in-state competitors when considering a sale.*

### **Financial Buyers**

Financial buyers usually look to purchase businesses with a short term (less than five years) exit strategy in mind. The achieved return as well as the cash flow generated by the prospective business is a top concern. They are also more likely to retain the personnel because they typically lack the industry knowledge or clinical experience needed to be successful. In completing an acquisition, financial buyers usually have the flexibility and creativity to overcome transaction obstacles and move quickly to close on a deal than a strategic buyer.

While financial returns are a priority for financial buyers, a common misconception is that they do not care about the quality of the company they are looking to purchase. Wyatt Matas & Associates has found this to be largely untrue; in fact, Wyatt Matas & Associates has seen many financial buyers bring even more resources to a company post-acquisition, including specialty programs for patients, new technology to decrease the burden of the field staff, and better wages and benefits for all employees. Sophisticated buyers leave the clinical aspects of the business to the clinicians.

Some buyers that started out as financial buyers are now becoming strategic buyers.

Those private equity companies and venture-back groups that were acquiring platform (large) agencies in 2003-2006 are now looking for “add-ons” (smaller agencies) to broaden their geographical coverage and to leverage their own back office.

We have also seen a significant number of smaller private equity companies looking for small companies. Their inability to compete with large private equity companies for the larger home health care companies that are for sale has led them to acquiring two to three smaller companies and then consolidating their corporate and back office functions to realize cost savings and synergies. Dozens of small and mid-sized strategic buyers are also hoping to expand through acquisitions in 2007 and are in need of sellers with real growth potential and dedicated field and marketing staffs. Wyatt Matas & Associates expects both strategic and financial buyers to be quite active in 2007.

*As part of an exit strategy, it is important to identify the classification of buyer that a company prefers before they go to market. It may also be helpful to listen to proposals from the strategic and financial sides. In the end, the seller must thoroughly understand his/her own priorities for selling.*

—WMA

**Wyatt Matas & Associates** works closely with our clients to determine what buyer is right for the seller based on their goals and concerns. By managing the acquisition process methodically and confidentially, our clients realize the full value of the agency they have built. To Wyatt Matas, it's about the relationship.

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