CORPORATE FINANCE

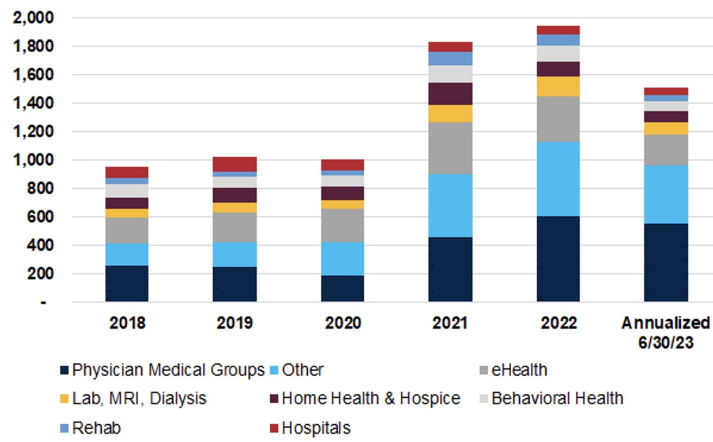
BRG HEALTHCARE M&A UPDATE

HOME HEALTH & HOSPICE TRENDS IN THE HEALTHCARE INDUSTRY | Q2 2023

KEY MARKET OBSERVATIONS

- Overall transaction value in the healthcare industry has trended down in the first half of 2023. Although deal volumes appear to be trending closer to pre-pandemic levels, the number of transactions in the healthcare industry have remained resilient despite an increase in interest rates, a decrease in valuations, and general concerns regarding a softer economy.
- While physician practices continued to represent the largest number of deals in the healthcare-provider sector, the COVID-19 pandemic created a springboard for deals in the post-acute care and eHealth sectors. Deal volume in 2021 for the post-acute care and eHealth sectors increased 97 percent and 54 percent, respectively, remained steady in 2022, and in 2023 is still higher than pre-pandemic levels (on an annualized basis).

HEALTHCARE DEAL VOLUME IN THE US[1]

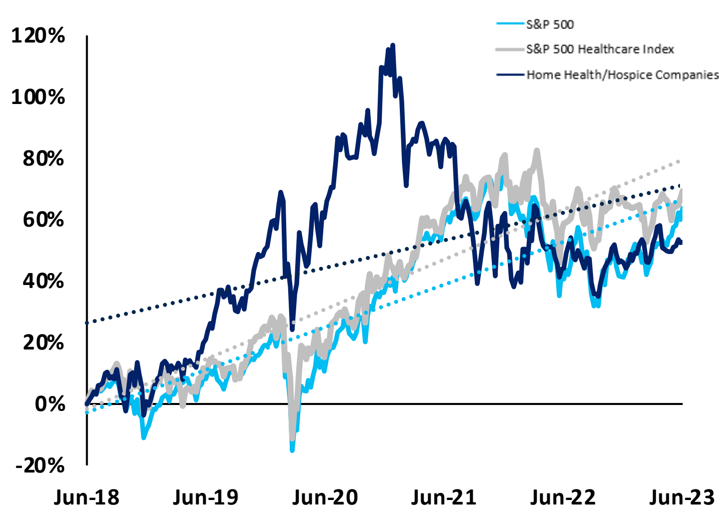


SECTOR SPOTLIGHT

HOME HEALTH & HOSPICE

- Deal volume in the home health and hospice sector decreased ~30 percent year over year, with a 19 percent decrease quarter over quarter (Q2 '22 vs. Q2 '23). This decrease is primarily attributable to uncertainty of reimbursement rate cuts and interest rate increases.
- Overall demand for home health services in the US is expected to remain strong due to continued aging of baby boomers, a preference for at-home care, and pressures to reduce overall cost of care. However, home health and hospice companies continue to experience labor pressures despite the ability of home health providers to deliver telemedicine options.
- Nearly half of deal volume in the home health and hospice sector in the past three years was from private equity investors, with total volume reaching an all-time high of 155 transactions in 2021. While private equity continues to invest in technology and at-home options to support the shift toward value-based care, the home health and hospice sector is a logical target for new capital.

COMPARISON TO S&P 500 INDEX[2]



HOLLAND & KNIGHT PERSPECTIVE

Despite higher interest rates, labor market difficulties, and reimbursement challenges, the pace at which care is transitioning to the home continues to increase. The fundamentals creating the sector's tailwinds have not changed. Investors should remain attentive to legislative and enforcement developments that will impact deals—from increased federal and state scrutiny of non-competes to increased antitrust and regulatory oversight. Even if these changes do not impact deal value, they may make transactions more expensive without proactive planning and filing notices early in the timeline.

John Arnold, Partner, Holland & Knight

Holland & Knight is a global law firm with 2,000 attorneys across 34 offices. Following its March 2023 combination with Waller Lansden Dortch & Davis, Holland & Knight is now the nation's largest healthcare law firm with nearly 400 attorneys practicing across the industry.

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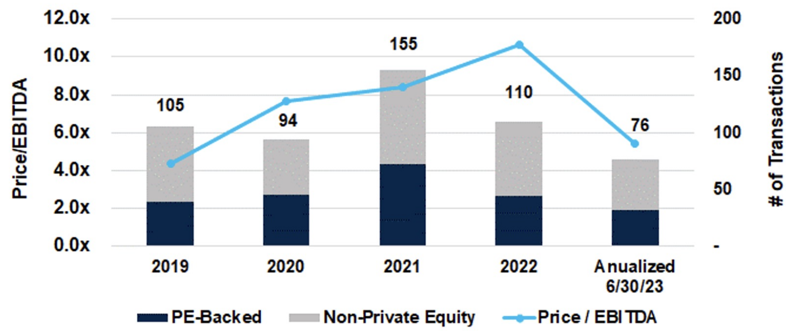
OPPORTUNITIES IN THE MARKET

- Demand in the home health, palliative care, hospice, and skilled nursing categories is driven primarily by demographic trends. As more US residents live into their eighties and beyond, families, government agencies, and payers are searching for better and more affordable ways to care for older adults.
- Strategic collaboration may allow provider groups to pool their financial and operational resources to focus on recruitment and retention.

MEDIAN HOME HEALTH & HOSPICE TRANSACTION MULTIPLES[3]



INDUSTRY OUTLOOK

- The future of healthcare is in the home, and consolidation in the home health and hospice sector will continue, but likely at a slower pace and with lower valuations than in 2022.
- Strategic targets will continue to attract industry participants entering new growth areas, but most buyers will be more selective and have less leverage if interest rates continue to increase. Some sellers may be unwilling to accept valuations considerably lower than what they might have expected a year ago. Further, divestitures and carve-outs may provide an opportunity for companies to create value by improving their focus on core businesses or peeling off underperforming investments.
- Major players in the healthcare industry have undertaken acquisitions of home health companies to expand their footprints and provide effective treatment over the entire continuum of care.
- Continued private equity dry powder, strong corporate balance sheets with large amounts of cash, and alliances with strategic payers may lead to a continued strong outlook for healthcare deal volumes in the second half of 2023.

Select Home Health & Hospice Deals (2023)

Target	Acquirer	Date	Price ($000s)
Tennessee QualityCare	Addus HomeCare	6/29/2023	$ 106,000
amedisys	UnitedHealth Group	6/26/2023 (pending)	3,733,826
signifyhealth	CVS	3/29/2023	8,000,000
ProMedica Hospice	gentiva	2/27/2023	710,000
LHC Group	UnitedHealth Group	2/22/2023	6,000,000

DEAL SPOTLIGHT

On June 26, 2023, Amedisys agreed to be acquired by UnitedHealth's Optum unit in an all-cash deal. Optum is buying the company for $101 per share, valuing Amedisys at roughly $3.7 billion, which is a 10.7 percent premium to its most recent closing price of $91.21. Amedisys had previously agreed to merge with Option Care Health in a deal valued at $3.6 billion. Under the terms of their agreement, Option Care would receive a $106 million "breakup" fee if Amedisys pulled out of the deal.

Between LHC Group and now Amedisys (assuming the Amedisys transaction closes), Optum likely holds around 10 percent market share in home health.

1) LevinPro; 2023 represents 6/30/23 YTD annualized deal volume. 2) CapitalIQ. 3) LevinPro: 2023 represents 6/30/23 YTD annualized deal volume.

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