Navigating the Post-Acute Care Market: An Investor's Guide

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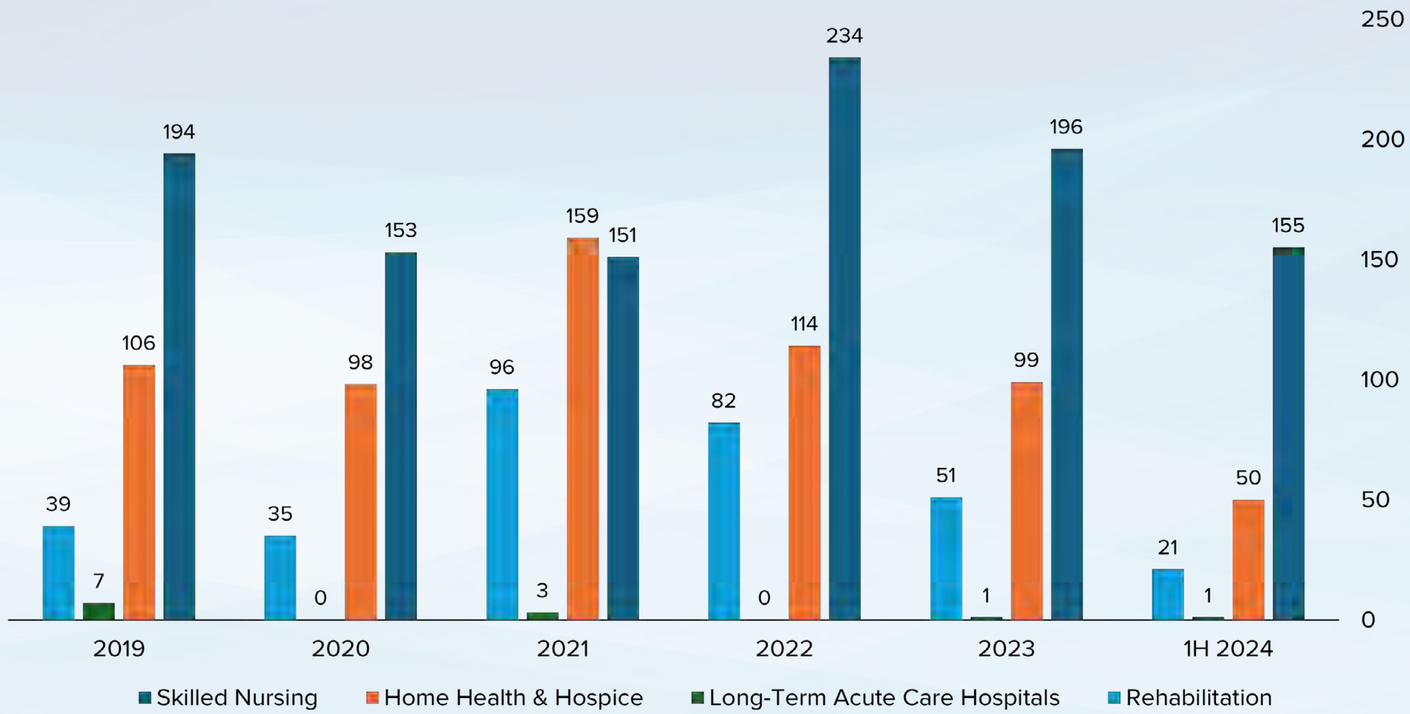
Introduction

Although post-acute care (PAC) providers and operators all share a mission to treat patients discharged from a hospital, the PAC industry is diverse, and different service types navigate distinct headwinds and tailwinds. Facility-based care and home-based care overlap, but the market forces shaping those verticals differ, for instance. These distinctions and trends are important for investors and M&A advisors looking to enter the space to consider, and this whitepaper aims to serve as a resource in that process. We'll dive into each vertical's historical trends and M&A activity, break down the rules and regulations and offer insight into what the next few years will look like in the PAC space. This report will study several sectors in the PAC industry, including Home Health & Hospice, Skilled Nursing, Rehabilitation and Long-Term Acute Care Hospitals (LTACHs), but also highlight adjacent sectors such as Behavioral Health Care and emerging digital health services that play a significant role in the patient's post-acute care journey.

We also will feature commentary from Jed Cheney, who has 15 years of experience exclusively in the healthcare services area with post-acute providers. He is currently a Principal with the health care and life sciences group at **CLA**, which provides a wide range of services, including integrated wealth advisory, outsourcing, audit, tax, and consulting services. CLA has more than 130 locations with global reach as an independent network member of **CLA Global** and serves more than 218,000 clients. Investment advisory services are offered through **CliftonLarsonAllen Wealth Advisors, LLC**, an SEC-registered investment advisor.

M&A Market Overview

Post-Acute Care M&A Volume, By Year



Source: *LevinPro HC, August 2024*

M&A activity in the PAC market has fluctuated in the past five and a half years. Collectively, there was a peak of 430 deals in 2022 and a low of 286 deals in 2020, with 227 deals so far in the first half of 2024. Announced spending in the industry correlates, hitting a high of $27.8 billion in 2022 but only $1.9 billion in the first six months of 2024. Nearly all the announced spending is concentrated in the Skilled Nursing and Home Health & Hospice (HH&H) sectors, the latter accounting for 58% ($42.4 billion) of spending in the past five and a half years. Announced spending for skilled nursing facilities for the same time frame sits at $22.8 billion, while Rehabilitation totals around $7.6 billion.

The LTACH sector is an outlier here. Deal activity is very low, with only 12 deals announced since 2019, but we should provide some brief context. LTACHs are very specialized hospitals, and caring for patients in these facilities can be costly. Sometimes, an LTACH is included in the merger between health systems, but those are few and far between. In the past decade, Centers for Medicare & Medicaid Services (CMS) regulations have hit this particular vertical hard.

According to the most recent dataset[1] from CMS, there are only 334 LTACHs in the United States; compare this to the roughly 5,100 community and short-term acute care hospitals. Patients and investors are better off looking toward skilled nursing, which can usually offer the same services at a much lower cost.

Top Deals of the Post-Acute Care Market

Target	Target Sector	Acquirer	Acquirer Sector	Year	Price
Signify Health	HH&H	CVS Health	Other Services	2022	$8,000,000,000
Kindred at Home	HH&H	Humana Inc.	Managed Care	2021	$7,100,000,000
LHC Group, Inc.	HH&H	Optum	Managed Care	2022	$6,000,000,000
Amedisys, Inc.	HH&H	Optum	Managed Care	2023	$3,733,826,250
DigitalBridge Group's HC assets	Skilled Nursing	Investment group	Real Estate Investment Firm	2021	$3,210,000,000
Kindred at Home's hospice business	HH&H	Clayton Dubilier & Rice	Private Equity	2022	$2,800,000,000
ATI Physical Therapy	Rehabilitation	Fortress Value Acquisition	SPAC	2021	$2,500,000,000
AeroCare Holdings	HH&H	AdaptHealth Corp.	Other Services	2020	$2,400,000,000
Apria, Inc.	HH&H	Owens & Minor, Inc.	Other Services	2022	$1,450,000,000
Nichii Holdings	Skilled Nursing	Nippon Life Insurance Co.	Insurance	2023	$1,410,000,000

Source: *LevinPro HC, August 2024*

1 Accessed on August 21, 2024.

Major corporations have made significant advances in the PAC market, especially for home-based care providers. The largest deal in this space is **CVS Health**'s acquisition of **Signify Health**, one of the leading home health companies in the United States, for $8 billion (10.3x Signify's annual revenue in 2021).

The Dallas-based Signify Health is a value-based, tech-enabled care provider that leverages at-home health risk assessments. The company has more than 10,000 clinicians under its nationwide umbrella.

"This acquisition will enhance our connection to consumers in the home and enables providers to better address patient needs as we execute our vision to redefine the health care experience," CVS Health CEO Karen Lynch said in a statement after the acquisition announcement. "In addition, this combination will strengthen our ability to expand and develop new product offerings in a multi-[payer] approach."

The largest deal in the Skilled Nursing sector was the sale of **DigitalBridge Group**'s (formerly known as Colony Capital) healthcare assets, which include 83 skilled nursing facilities and a portfolio of other senior care and healthcare facilities.

The investment group that bought the portfolio includes two real estate investment firms: **Highgate Capital Investments** and **Aurora Health Network**. Highgate has over $15 billion of assets under management, primarily focusing on hospitality. Aurora is a healthcare-focused firm managing facilities across the United States.

ATI Physical Therapy's reverse merger with a SPAC is one of the largest deals ever for a Rehabilitation provider. The deal, valued at $2.5 billion, took ATI, the largest single-branded outpatient physical therapy provider in the United States, onto the public market. ATI currently has approximately 900 practices across the United States, only topped by **Select Medical**'s network size (1,900 clinics).

Sector Dives

Home Health & Hospice

The Home Health & Hospice industry has been growing for years, but the sector has challenges. Demographic shifts and patient preferences for home-based care have made the space attractive for investors, and growth only accelerated during the COVID-19 pandemic, which is evident in the M&A data captured in LevinPro HC. There were 159 deal announcements in 2021, an annual record for the sector, and approximately $11.5 billion in announced spending. Private equity and their platforms also accounted for 50% of all deal activity that year.

"Facility-based care always has a role, but we've been seeing demand for home-based care," said Cheney. "The pandemic environment showed what the market can do without limitations."

When the COVID-19 pandemic hit, the Centers for Disease Control and Prevention (CDC) relaxed regulations and modified reimbursements for telehealth, which benefited home health agencies as more patients turned away from facility-based care. The CDC's changes created a surge of deal activity and investor interest in 2021 and partly in 2022.

However, deal activity has slowed in the past year and a half, with only 50 deals announced in the first six months of 2024. The largest deal of that period was **Addus HomeCare Corporation**'s $350 million acquisition of **Gentiva**'s personal care operations, which serve more than 16,000 patients per day in a seven-state service area of Arizona, Arkansas, California, Missouri, North Carolina, Tennessee and Texas. Valuations for this deal hit 1.2x annual revenue.

Private equity buyers remain active nonetheless, announcing nearly half of the deals in the first half of 2024. **PurposeCare**, a portfolio company of **Lorient Capital**, was especially busy, announcing three deals for agencies across the Midwest.

The CMS changes could also exacerbate the labor issues hitting the market.

"The worker shortage and how to fill that gap is a big topic that continues to become more and more challenging," Cheney said.

With labor costs rising, tightening reimbursement rates could make hiring and retaining staff even more difficult. The team at LevinPro HC has written about this issue extensively in the past, but it still weighs on the industry, both provider and patient alike. Labor costs account for a more significant share of expenses for a home health agency compared to other sectors, so any wage increase will have an outsized impact on operating margins and cash flow.

"Labor issues play an interesting role in the dealmaking process," Cheney noted. "An owner dealing with labor challenges on top of all the regulations might have an incentive to sell and bow out. However, on the buyer side, you have to be more diligent in the process or future growth can be a real challenge."

CMS also recently implemented a rollout of the Home Health Value-Based Purchasing model, which ties home health agencies' reimbursement to certain quality metrics. As home health regulations become more complicated, that could lead to further consolidation. Larger organizations will undoubtedly have more resources to adapt to these changes, but how it will hit smaller and local agencies is yet to be determined. Still, any uncertainty in the market forces dealmakers to slow their M&A output.

"All I hear is about how regulation is getting more complicated, driving consolidation because scale matters with regulatory burden," said Cheney.

However, it's not all doom and gloom. Aging demographics bode well for the home health space especially. The number of Americans who are 65+ is going to double by 2060, according to some estimates, and the demand for home health services will only rise at that time, especially as technologies should increasingly allow seniors to live at home healthily, sociably and safely.

Another benefit of home health, especially compared to facility-based care such as skilled nursing, is the significant cost savings for the provider and the patient. And there is a healthy mix of investors competing for space in the market, from private equity to major insurers to even health systems. Additionally, emerging technologies such as remote patient monitoring, care coordination platforms and telehealth allow patients to receive hospital-level care at home.

"It's a good seller's market in the home health space," Cheney said. "Valuations remain strong and there's a large buyer pool."

Skilled Nursing

The last few years have been difficult for many operators in the skilled nursing industry. The COVID-19 outbreak took a severe toll on the industry; these facilities were caring for the sickest and frailest populations, leaving them especially vulnerable to the pandemic. Organizations and operators saw their census plunge as more patients turned toward home health options, and the industry's overall reputation in the media suffered just as much. Labor costs are also a major issue in the industry: historically low pay and harsh working conditions have created high employee turnover.

However, the sector rebounded more strongly than many expected. First, elective procedures returned after the early days of the pandemic and helped improve the census at SNFs across the country. Second, government aid and temporary reimbursement rate increases kept many facilities afloat, making some very profitable. Third, Medicare and Medicaid reimbursement rates continued to increase at the federal and state levels to account for rising staffing and care costs. The government showed, and investors/operators increasingly believed, that the sector would be adequately supported financially as it was a critical and cost-saving piece of the post-acute care continuum.

Despite these numerous persistent headwinds, investment activity for skilled nursing facilities (SNFs) has remained strong since 2019, with more than 1,000 deals on the books through the first half of 2024. Pricing also hit record highs in 2021 and 2022 as the supply of facilities for sale was outmatched by buyers' demand in search of beds and scale

The first six months of 2024 have been incredibly robust from an M&A perspective, with 155 publicly announced deals. Operators with private capital backing account for 119 deals, but REITs and real estate investment firms also set out to expand their portfolios this year. Through the first six months of 2024, **Standard Bearer Healthcare REIT, Inc.** has announced six deals (five of them in partnership with **The Ensign Group**).

Private equity firms committed a few deals but remain a minor player in the M&A market, according to data captured in LevinPro LTC.

One of the largest deals was **National HealthCare Corporation**'s acquisition of a **White Oak Senior Living** portfolio, which included six skilled nursing facilities with more than 1,900 beds and a mix of other senior housing units. The deal was valued at $221.4 million and is expected to close by the end of the third quarter of 2024.

Although the home-based model seems more popular with patients, there is still value in facility-based care. From a care perspective, skilled nursing facilities are better equipped to treat patients with significant medical needs. Home care costs can balloon for a patient needing 24/7 medical care, and the their health and safety could at risk if the home situation is not ideal for high-acuity treatment. In that instance, it is much more economical and beneficial for a patient to be in a facility.

From an investment perspective, the demographic trends also help skilled nursing, but so does the rise of chronic diseases in the United States. According to the CDC, at least 78% of adults 55 and over have at least one chronic disease, and 47% have two or more.

CMS' current reimbursement plans are also more friendly to SNFs than home health providers. In 2025, CMS is expected to increase the Skilled Nursing Facility Prospective Payment System, a Medicare Part A reimbursement system that pays skilled nursing facilities a per diem rate for services provided to Medicare beneficiaries, by 4.2%. Most skilled nursing operators say these increases have not been enough to keep up with labor and care expenses, but that is to be expected. The reimbursement rate increases have also contributed to a sector of haves and have-nots, those being the all-Medicare "transitional care facilities" and the traditional, all-Medicaid skilled nursing facilities, respectively. However, some states have also provided meaningful increases to their Medicaid rates in recent years.

As an investor, you also get a real estate asset. Although there are still pressures on the industry, skilled nursing cap rates have not compressed to the degree of other real estate sectors, attracting investors searching for higher-yielding properties.

Rehabilitation

Dealmaking in the Rehabilitation sector from 2019 through 2023 was much lower compared to HH&H, hovering around 60 deals, and the level of activity in the first half of 2024 is much slower (21 deals).

The largest deal of the first six months of 2024 was **Sila Realty Trust, Inc.**'s acquisition of an inpatient rehabilitation facility in Brownsburg, Indiana. The 40-bed facility is 100% leased to **Community Health Network Rehabilitation Hospital West**, a joint venture between **Community Health Network** and **Lifepoint Rehabilitation**, a business unit of **Lifepoint Health**.

Sila Realty paid $40 million for the facility, which offers acute rehabilitation and recovery for patients who suffer from stroke, traumatic brain injury, spinal cord injury, complex neurological disorders, orthopedic conditions, multiple traumas, amputation, and other injuries.

There has been a healthy mix of investors in the first half of 2024, from private equity-backed platforms to hospitals to REITs. A few familiar companies remained active this year: **U.S. Physical Therapy, Inc.** has announced two deals, buying three undisclosed therapy practices. **Ivy Rehab**, a portfolio company of **Waud Capital Partners**, announced two deals, one for a practice in New Jersey and another for a clinic in Virginia.

The low deal volume is due to several headwinds dragging down the market, ranging from high turnover of physical therapists and cuts to Medicare payments.

According to The National Association of Rehab Providers & Agencies, 22,032 physical therapists left the workforce in 2021, primarily due to therapist burnout exacerbated by the COVID-19 pandemic. And the market is not immune to high inflation and interest rates either.

However, this industry has strong tailwinds, and investors should take note. According to U.S. Physical Therapy, Inc.'s most recent investor presentation, each year, approximately 50% of Americans over the age of 18 develop a musculoskeletal injury that lasts more than three months, and only 10% use outpatient physical therapy services. There is an enormous amount of growth potential left in the Rehabilitation sector that investors can capitalize on in the future.

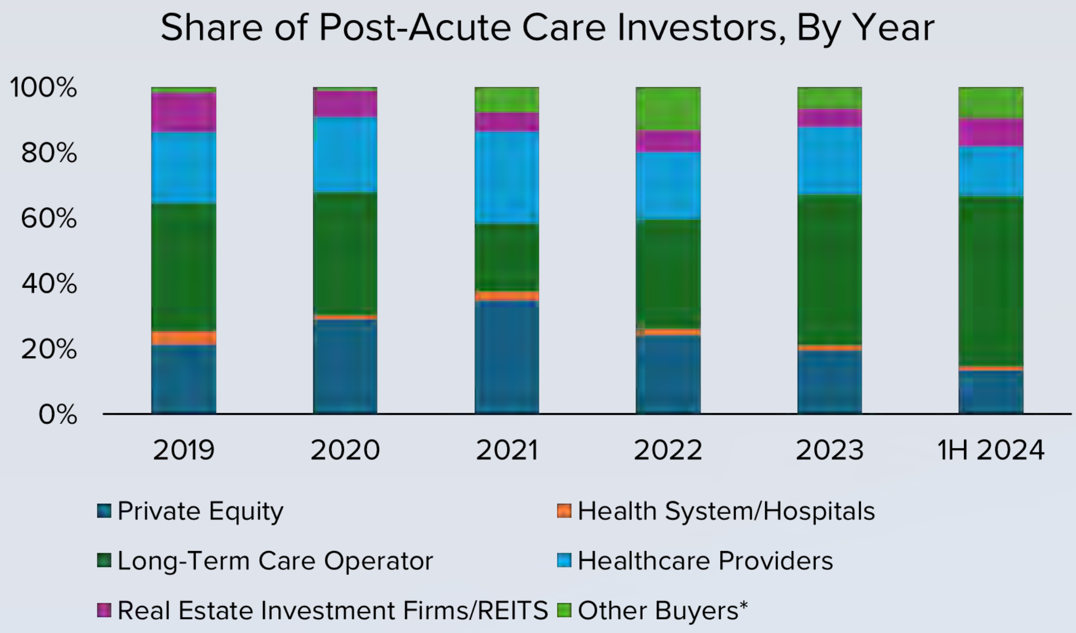
And we would be remiss not to mention the benefit of the healthcare industry's shift toward value-based care. As the market moves from inpatient offerings to lower-cost outpatient services, the Rehabilitation sector stands to benefit since it's one of the key verticals in the PAC market and can provide post-acute care at a lower cost and in a more comfortable setting than a hospital.

"The low cost and strong clinical outcomes of physical therapy services in the outpatient setting is an ideal fit for the current healthcare landscape where payors and provider networks are seeking high quality, cost-effective care for its patient population," **Provident Healthcare Partners** wrote in a perspective on the market.

The market is also highly fragmented. The U.S. rehabilitation market has more than 37,000 independent clinics. Some significant players include Select Medical (1,900 clinics), ATI Physical Therapy (900 clinics) and U.S. Physical Therapy, Inc. (675 clinics). Additionally, rehabilitation services are split across many sources: hospitals, therapy clinics, physician-owned clinics, chiropractors and more. A heavily fragmented market is ripe for consolidation and M&A, meaning there's plenty of room for investors to push into the industry.

Investor Breakdown

There is plenty of investor competition in the PAC market. From real estate investment trusts (REITs) to private equity-backed platforms to not-for-profit health systems, a wide range of capital flows into this space.



Source: *LevinPro HC, August 2024*

**=Other Buyers include ancillary investors, undisclosed investors, and joint ventures*

This chart details the share of investors in the PAC market. Since the skilled nursing market has seen the most M&A volume, long-term care operators will naturally hold the highest share of these statistics. However, some long-term care operators have branched out of the skilled nursing market, acquiring home health agencies and hospitals.

Private equity also plays a significant role in the PAC market, accounting for an average of 25% in the investment space each year, mostly for healthcare providers.

Although there is a lot of discussion amongst politicians and regulators about private equity investments in skilled nursing, our M&A data paints a different picture. According to data captured in LevinPro LTC, private equity was only involved in 47 deals from 2019 through 1H 2024. That's approximately 4% of all Skilled Nursing deals. Private equity prefers to invest in much less capital-intensive providers, like physician groups. It's why their involvement in the hospital sector is relatively non-existent as well.

In the three other sectors we're covering in this whitepaper, private equity and their portfolio companies have accounted for 48% of all deals since 2019 through the first half of 2024, a significant difference to the skilled nursing industry.

This private equity data also includes their portfolio companies, which are often the vehicles for what the industry calls roll-up acquisitions or when a platform company buys a smaller agency in the same vertical. This deal structure allows private equity-backed platforms to expand quickly into new states and markets. Some private equity firms, such as **Webster Equity Partners**, **Revelstoke Capital Partners** and **Partners Group** have very aggressive platforms, announcing more than 20 acquisitions each since 2019.

Other types of healthcare providers, from small strategic buyers to the large publicly traded organizations, are also making a dent into the space. We see this largely in the Rehabilitation and HH&H market, with companies like **The Pennant Group, Inc.** and U.S. Physical Therapy, Inc. pursuing extremely active M&A strategies.

We could almost have created another category for health payors and insurance companies, which have been highly active in the market. **Humana Inc.** and **Optum**, a significant part of **UnitedHealth Group**, have invested billions into the home health market.

"I think the market is moving toward consolidation of payer and provider," said Cheney. "Having it all under one umbrella seems to be an effective strategy, but I would watch out for how regulators and anti-trust officials view these deals."

And they are very large deals.

In April 2021, Humana Inc. paid $5.7 billion to take full ownership of **Kindred at Home**, one of the largest home health providers in the country, and two months later it bought **onehome**, which provides post-acute and home-based care to patients who were recently discharged from emergency rooms and hospitals. No terms were disclosed for the latter deal.

Optum has been even more aggressive. In 2022, it paid $6 billion (including debt) for **LHC Group**, a national provider of in-home healthcare services and innovations for communities. The company's 30,000 employees deliver home health, hospice, home- and community-based services and facility-based care in 37 states and the District of Columbia, reaching 60% of the U.S. population aged 65 and older. LHC Group had a full-year 2021 revenue of $2.220 billion.

Following that deal, Optum acquired **Amedisys** for $3.7 billion, formerly Analytical Nursing Management Corporation, one of the largest home health and hospice operators nationwide. Amedisys' annual revenue for 2022 was $2.1 billion.

Initially, **Option Care Health** tried to acquire the provider to create an "end-to-end" continuum in the home. Ultimately, UnitedHealth Group's Optum won, luring Amedisys away with an all-cash deal. The deal positioned UnitedHealth as one of the largest home health and hospice operators in the United States with approximately 15% of market share.

Health systems and hospitals are also trying to expand their network, acquiring agencies and organizations in the PAC market, but as highlighted in the chart above, they are hardly the most prominent players in the M&A space. Activity often happens under a merger between health systems, which usually own long-term care facilities and home health agencies. Economies of scale are important for health systems, so we're unlikely to find them buying small agencies or practices.

In past reports, we've noted that although activity is down for hospital acquisitions, health systems have not slowed down their M&A strategies but instead directed their attention to outpatient and PAC settings. In 2023, only 40% of M&A activity from hospital and health systems acquirers targeted a hospital facility. The rest focused on everything from physician medical groups to specialty pharmacy providers and physical therapy practices.

In the first half of 2024, the contrast has grown: 38% of deals targeted hospitals, while most investments targeted other settings and providers. National statistics gathered by companies like **Kaufman Hall** have revealed the tightening of inpatient revenues and the growing size of outpatient income streams, and numbers from the M&A market underscore that shift in our healthcare landscape.

Real estate investment firms and REITs are heavily involved in the skilled nursing market but also seek out other facilities, such as inpatient rehabilitation facilities. Since 2019 through the first six months of 2024, these two investor types have acquired more than 650 skilled nursing facilities across 145 deals (totaling nearly 50,000 beds). **CareTrust REIT, Inc.**, **Strawberry Fields REIT LLC** and **Omega Healthcare Investors, Inc.** are among the most active investors.

Post-Acute Care & Behavioral Health

One area often left out of the PAC discussion is behavioral health care, especially in home health and skilled nursing, but in recent years, there's been a renewed focus. The COVID-19 pandemic exacerbated the mental health crisis in the United States, and seniors felt that impact especially hard.

In response, the U.S. government and the Department of Health and Human Services (HHS) decided to lead a push to address this issue. In 2022, HHS announced $15 million for a "three-year federal grant to establish a Substance Abuse and Mental Health Services Administration (SAMHSA) program that will strengthen the delivery of behavioral health care to residents of nursing homes and other long-term care facilities."

The Patient-Driven Payment Model rule change in the skilled nursing industry also acknowledged the care that skilled nursing staff provided to patients with depression and began providing reimbursement for it.

"Physical health and mental health are equally important and should be treated as such, including in our nation's nursing homes and other long-term care facilities," said HHS Secretary Xavier Becerra in the press release.

In 2023, SAMHSA established the Center of Excellence for Behavioral Health in Nursing Facilities (COE-

NF) to offer "to offer nursing facility staff a centralized resource hub with easy access to training, technical assistance, and additional resources."

Providers and investors need to incorporate this push into their PAC strategy, whether through M&A or partnerships.

"I think an integrated mental health care model is going to play into PAC more in the future," Cheney said. "Especially in a value-based care landscape. Social determinants of health are important for every provider to incorporate into patient care, and mental health is critical to that."

We've even seen some deals in the M&A market reflecting this trend. In 2022, a regional skilled nursing operator purchased a behavioral health community for $17.2 million.

The property is a 140-plus-bed behavioral health community in Tucson, Arizona. The 100% Medicaid facility serves only behavioral health patients, reporting a 36% operating margin on $12.6 million of revenues with just 72% occupancy.

In 2020, Kindred Healthcare purchased two behavioral health hospitals in Texas. In May 2024, Las Vegas-based **1Care Hospice** purchased **Reset Behavior Health**, which provides applied behavior analysis, behavior assessments and support, professional training and child education services.

Additionally, numerous skilled nursing and behavioral health investors are acquiring old and/or vacant skilled nursing facilities and converting them to behavioral health use.

Incorporating behavioral health services at skilled nursing facilities would be especially useful. The Value-Based Purchasing Program by CMS, or SNF VBP, awards incentive payments to SNFs based on their performance for the SNF 30-Day All-Cause Readmission Measure, which tracks the rate of all-cause, unplanned hospital readmissions for SNF residents within 30 days of discharge from a prior hospital stay.

Behavioral health services can help with various issues in SNFs, especially chronic care management and medication management, which are among the biggest causes of hospital readmissions.

Emerging Technologies & The Future of PAC

With the rise of value-based reimbursement models and Medicare Advantage, the future of PAC will be defined by how well providers can improve care at a lower cost. Technology is one of the most valuable tools to help investors and providers succeed in that mission. And with headwinds such as higher labor costs and an increasingly complex reimbursement environment, the need to adapt and change will only accelerate.

We're seeing this importance play out in the M&A market; providers of these emerging technologies will be in high demand, and investors are moving quickly.
WellSky, which provides software solutions for more than 20,000 client sites across healthcare, ac-

quired **Experience Care** for an undisclosed sum. Experience Care is an Austin, Texas-based technology company offering software solutions for post-acute and long-term care providers. The company's electronic health record platform, NetSolutions, serves 150 long-term care clients with 850 facilities.

Dallas, Texas-based **Axxess** purchased **Complia Health** in 2023 for an undisclosed price. Headquartered in Schaumburg, Illinois, Complia Health is a leading provider of electronic medical record solutions, technology, and services for home care, home health, and hospice agencies. Complia's roster of clients includes some of the largest home health, home care, hospice and palliative care providers among its more than 200 clients with thousands of locations.

"Whether it's AI, remote patient monitoring, predictive analytics around hospital readmissions, or other emerging technologies, these are all going to be critical for the growth of the PAC market," Cheney said.

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