

Customer & Market And Operation Due Diligence Of Regional Home Care Services Provider: Establishing Acquisition Opportunities And Scale Advantage

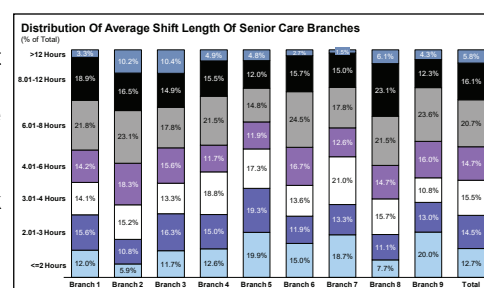
The Challenge: One of our healthcare-focused PE clients was in exclusive negotiations to acquire a regional home care services company providing private pay senior care PCA services. In a fragmented market dominated by franchises and independents, the target developed a business model of company-owned locations and quickly built a leading presence in California through both acquisitions and de novo locations. The target believed that its operational scale provided it with a competitive advantage and began expanding into other western states. Our client was attracted by the opportunity to acquire a growing, scale player in the attractive home care industry and asked Gotham to conduct a due diligence of the target to: (1) establish senior care PCA services market size and dynamics in the target's current and expansion geographies; (2) establish the target's competitive landscape and acquisition opportunities; and (3) validate scalability/competitive differentiation of the target's operations.

Rapid Market and Operations Assessment: To pin down market and competitive dynamics, Gotham:

- Conducted ~30 anonymous interviews with hospital medical discharge planners to gain insights on: hospital's role in the selection of PCA services providers; hospital referral decision-making criteria; and the target's reputation among hospital referral sources
- Built location-specific PCA services provider database for California and adjacent states by leveraging available government and industry data, and profiled multi-location players to establish competitive landscape and identify acquisition targets
- Conducted secondary and primary research to establish senior care PCA services market size, key trends, and growth outlook in the target's geographies as well as the impact of California minimum wage increase on the target.

To assess operations, Gotham:

- Reviewed operational processes and tools associated with caregiver recruitment and retention, scheduling and logistics, and customer acquisition and retention
- Analyzed transaction-level billing & payroll data to build a robust profile of the target's customer base, shift structure, bill rates, pay rates, etc.
- Reviewed operational and financial reports to establish target's operational performance and leveraged Gotham's proprietary information to benchmark target's performance against competitors
- Conducted an all-day meeting with target's senior management to discuss challenges and opportunities in target's operations
- Visited one of target's branches to perform first-hand review of operations and conduct in-depth discussions with management.



Private Pay Senior Home Care Market Attractive and Projected to Grow as Affluent Baby Boomers Prefer to Stay at Home

Gotham established that the senior care PCA services market in the target's geographies was an estimated \$1.8B and expected to grow at 8% CAGR due to favorable demographics. First, the primary customer for these services, the 70+ population segment, is projected to grow at 3.6% CAGR in the target's geographies. Second, there is an increasing demand for home care services as baby boomers, known for their independent lifestyle, prefer to stay at home despite ~20% higher cost vs. living in an assisted living facility while at the same time there is an ~20% decline in the number of children available to care for parents. Lastly, baby boomers are able to afford home care services due to their affluence – their net worth at retirement is 24% higher than the previous generation and 20% of 65+ population has annual income over \$100K vs. 9% a decade ago.

Minimum Wage Increase May Create Potential Headwind in Market but Potentially Advantageous for Target

California's minimum wage increase may create a potential market headwind in the target's core geography. Although, Gotham established that providers have thus far been able to pass mandated increases through to customers (with competitors mostly moving in sync on price increases), it is possible that further price increases could cause customers to consider alternatives, such as a reduction in number of hours, a switch to independent providers, or assisted living options. Longer-term, it may be harder for independents to compete, potentially providing an advantage to a scale player like the target.

Add-On Acquisitions Plentiful in a Highly Fragmented Market

Gotham's senior care PCA service provider database identified almost 4,000 providers in the target's geographies, with ~30% of locations being franchises, ~60% of competitors being independents, and remaining ~10% of locations part of diversified home care players. Competitively, the target is well-positioned – franchise competitors were showing growth slow-down due to saturation; diversified players have not grown as expected. We established that ~20% of independent locations are operated by multi-location players, offering multiple acquisition opportunities for rapid further scaling of the target's operations.

Scale Advantage Through Centralized Operations and Operating Performance Improvements

Gotham found management to be metric-driven with a robust set of KPIs and identified a few opportunities to add KPIs and adjust targets. However, the performance on key metrics was mixed, in terms of both management targets and industry benchmarks. We established that operations were being managed at the branch level with limited scale leverage. To create scale advantage, the target needs to move to a centralized operating model. Centralization of recruiting and HR functions will result in efficiencies and upgraded caregiver recruiting and retention practices that cannot be matched by small independents and franchisees. Target's larger pool of caregivers and centralized scheduling can provide a scale advantage in scheduling and logistics. Finally, scale creates an opportunity to build relationships at higher levels of larger hospitals as our referral source interviews indicated potential restrictions on ability of sales people to visit case managers in the big hospitals.

The Outcome: Gotham's comprehensive, fact-based assessment verified that the underlying market was attractive and the target had a strong reputation with its referral sources. Our client was excited by the acquisition opportunities available to create a scale player and more fully leverage operational scale to create competitive advantage and decided to pursue the target aggressively.