Recent LTACH and Inpatient Rehabilitation Transaction Inactivity

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With the surge in M&A activity in the acute care hospital market, one might expect a similar increase in activity in inpatient rehabilitation and long-term care hospital acquisition markets. Recently however, inpatient post-acute acquisition markets have not experienced a major uptick in acquisition activity.

VMG Health researched recent transactions for both inpatient rehabilitation facilities and long term acute care hospitals from January 2011 to July 31, 2013. Our search returned five noteworthy transactions:

Where is the Market Headed?

Since 2011, both large chain transactions and individual hospital deals have become less prevalent, as much of the strategic growth focus for post acute care facilities has shifted. After Kindred’s acquisition of RehabCare Group in 2011, the company shifted its acquisition focus from hospitals to home health and outpatient rehab facilities. Its is also worth noting that the company continues to divest skilled nursing facilities and other non-core assets associated with its Ventas reporting group. These types of acquisitions are less capital intensive and therefore may improve the company’s free cash flow:

“...I think the view of the company and the board is that post Ventas ’15, post the sale of these assets and looking at a business that is investing more in Home Health hospice and rehab, we have a very different looking company, while it may be smaller, will actually yield higher levels of free cash flow.”

-Richard A. Lechleiter, CFO, Kindred Healthcare

The company is likely to continue this strategy of purchasing ancillary services to drive discharge referrals from its long-term care hospitals and rehabilitation units. In a recent press release, Kindred announced that it was amending its $750 million revolving credit facility and a $785 million term loan. CEO Paul Diaz stated that the amendment “creates significant capital resources to expand our Integrated Care Markets and acquire additional home health and hospice operations...”
Similarly to Kindred, from a development perspective, HEALTHSOUTH is sticking to its core line of business. In its latest quarter, HEALTHSOUTH CEO Jay Griney commented that “…there were no compelling non-rehabilitation businesses we [HEALTHSOUTH] wanted to acquire at the current time because of the significant regulatory uncertainty facing other post-acute providers and the slow and uncertain pace of the industry’s evolution toward risk sharing payment methodologies.”

**Joint Ventures**

HEALTHSOUTH’s CEO sees an opportunity amidst reimbursement uncertainty, particularly in joint venturing with not-for-profit health systems:

“…while some of them [not-for-profit health systems] are doing fine, there are a lot that are struggling and there are a lot that are underwater. And the reimbursement headwinds that they face, both sequestration on the Medicaid side and less reimbursement from managed care is putting a lot of pressure on these providers to your point. They’re losing money in some of these smaller, noncore units. So we do see an opportunity, because more and more of those hospitals and hospital systems are going out, approaching us, maybe they’re approaching others, but we’re certainly out there aggressively pursuing opportunities to help them reposition their rehabilitative services to a profitable level and to offload some of that reimbursement risk. And we’ll take that, because we can manage those facilities very efficiently. So yes, we do see that as an increasingly attractive part of our growth profile.”

Select Medical Holdings also sees promise in the joint venture model. On July 1, Select Medical Holdings announced a joint venture with OhioHealth to develop a new rehabilitation hospital.

While IRF and LTACH transactions have been slow in the last two years, new development activity may emerge through joint ventures and denovo facilities.