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M&A still hot, but will it last? Experts say yes

By Mike Moran, editor

YARMOUTH, Maine -- M&A activity in the HME market continued its torrid pace in the first quarter of 2005, and preliminary second quarter numbers also look robust.

Buyers are once again interested in companies selling respiratory medications. Due to uncertainty surrounding future reimbursement, this market all but dried up after the MMA passed in December 2003. The new neb-med reimbursement that took effect in January 2005 (average sales price plus 6% and a monthly \$57 dispensing fee per patient), proved less severe than expected and rekindled buyer interest. Nevertheless, because of the Medicare reimbursement cut, valuations for neb-med businesses have shrunk dramatically, brokers say.

The reduced reimbursement for neb-meds favors larger companies with economies of scale who can take advantage of volume discounts. These companies can still make money on this service line, which also helps them locate and expand their base of more lucrative respiratory patients.

Rick Glass, a broker and president of Steven Richards & Associates in Tarpon Springs, Fla., said he's seeing increased demand for diabetic companies. That could be, he said, because companies see the favorable demographics and believe this segment is flying below the radar screen of future reimbursement cuts.

Currently, the forces of supply and demand appear to be keeping valuations steady. However, the market could soften if more providers look to sell -- rather than take on national competitive bidding -- and boost the supply side, Glass said. Additionally, acquisition activity typically increases leading into a reimbursement cut (as publicly traded companies like Lincare and Apria try to grow through the reduction) and for a time following the cut.

At the moment, however, demand seems unlikely to slow anytime soon, brokers says.