

Eli's Hospice Insider

Mergers and Acquisitions: Gentiva To Buy Odyssey For Nearly \$1 Billion

Don't expect your hospice's valuation to go up as a result, one expert cautions.

It's time to say goodbye to standalone, publicly-traded hospice chains, at least for now.

Atlanta-based Gentiva Health Services Inc. plans to buy Dallas-based Odyssey Healthcare Inc. for nearly \$1 billion, the companies say in a release. Gentiva plans an all-cash transaction of \$27 per share for the hospice company that was founded in 1996 and went public in 2001.

Odyssey has been the last standalone, for-profit, publicly traded hospice chain since it bought competitor VistaCare Inc. in 2007. Miami-based VITAS Healthcare Corp. is a publicly traded hospice chain, but it is owned by parent Chemed Corp., which also owns Roto-Rooter. VITAS says it is the nation's largest hospice provider. Gentiva and Odyssey's combined hospice locations will operate in 30 states with an average daily census of 14,000, the companies say. The soon-to-be merged company will have \$1.8 billion in annual revenues, with 60 percent coming from home health and 40 percent from hospice.

"We anticipate the combination of the two companies will create the largest U.S. healthcare provider focused on home health and hospice services," the companies say in the release.

"The combination of Odyssey's and Gentiva's existing hospice operations will create a leading hospice care provider in the U.S." Gentiva has 350 locations, it says on its website.

Gentiva's home health and Odyssey's hospice programs serve similar geographic regions, but have little overlap between hospice service areas, says Gentiva CEO **Tony Strange**. Odyssey's stock surged nearly 40 percent on news of the acquisition, to \$26.75 per share, although its stock price was down a bit from that high at press time. Gentiva's stock price also rose, although the increase was a more modest 13 percent to \$29.17 and also went down by press time.

Jefferies & Co. analyst **Arthur Henderson** told The Wall Street Journal that Gentiva's acquisition of Odyssey is "a strategically sound move that will not only drive incremental growth for the company, but will also allow it to diversify its business while generating operations synergies."

Combining home health agency and hospice businesses makes sense because the two can share referral sources, marketing staff, and recruitment resources, Henderson told the newspaper.

Deal Won't Drive Prices Higher, Expert Says

News of this high-flying deal shouldn't raise hopes that hospices will sell for more than before. "Much like the premium Gentiva paid for Healthfield a few years ago, the premium paid for Odyssey is not typical of the average transaction as Odyssey is not a typical provider," cautions

Jack Eskenazi Jr. with mergers and acquisitions firm Healthcare Advisory Partners in Los Angeles. "When considering valuation, we look at business mix, geography, and management depth on the qualitative side and size, trends, and margins on the quantitative side," Eskenazi explains to Eli. "For both Healthfield and Odyssey, the value drivers are off the charts so the companies warranted above market premiums."

The aggressive buying practices of Odyssey and VistaCare when they first started up are long gone, Eskenazi notes. Now the majority of buyers in the hospice market are medium-size hospice or skilled nursing facility companies, he observes.

They "look for growth that is complementary with their core business."

The bottom line: "The hospice market remains highly fragmented and continues to be dominated by small providers," Eskenazi says.

Deal Closure May Face Roadblocks

Gentiva's purchase of Odyssey isn't a done deal quite yet. Although both boards of directors have approved it, Odyssey shareholders still have to approve it as well, in addition to the usual regulatory approvals.

At least 10 law firms have already announced investigations into the transaction to determine if Odyssey's board breached its fiduciary duty by failing to shop for the best deal. "Odyssey has received mostly positive analyst opinions since 2005, with a notable upgrade to 'buy' from Zacks Investment Research due to 'soaring estimates' after the report of a 'fifth consecutive earnings surprise,'" notes Dallas-based Kendall Law Group.

In its latest earnings report, Odyssey "stated that its diluted earnings per share for the quarter were \$0.40, easily beating analyst estimates of \$0.32 per share," notes San Diegobased law firm Robbins Umeda. "As a result, many analysts dramatically increased their stock price targets for the company."

A large \$29 million deal termination fee may keep Odyssey shareholders from earning a better price, charges Bala Cynwyd, Pa. law firm Brodsky & Smith.

Gentiva and Odyssey expect the deal to close in the third quarter, they say.