

Why it Makes Sense for Kindred

There are three main reasons this is compelling to Kindred: 1) It pays their shareholders a premium to Kindred's recent share price; 2) It gives them a clean balance sheet and plenty of "dry powder" (cash from their equity partners) to do future deals, and; 3) It allows them to grow their core facilities-based business.

To expand on the first point, Kindred's stock has underperformed since their acquisition of Gentiva. Perhaps they assumed better synergies with their facilities business that didn't materialize as expected. Kindred stock was trading at approximately \$23 per share just after the Gentiva acquisition closed in February 2015 and proceeded to nosedive to about \$8.60 per share in the 12 month period after the deal was completed. It has never recovered. Since the announcement of the Humana deal, and as of the date of this article, Kindred's shares have bounced back to \$9.80 per share which, oddly, is more than the \$9.00/share acquisition price – it will be interesting to see if something else is developing there.

Why it Makes Sense for TPG/WCAS

Private equity typically makes its money a number of ways, the primary being "multiple expansion". They buy a platform and then subsequent add-ons for a weighted-average multiple of earnings (or EBITDA). They put them all together, grow the business, and typically sell in 3-7 years, for a much higher multiple than the weighted-average multiple they paid for their acquisitions. They use leverage to amplify their returns.

In this case, it appears the entry and exit multiples are roughly the same from the equity groups' perspective. So they must be counting on significant growth, both organically -- by leveraging Humana's population health model, and WCAS' Innovage private duty platform (acquired in 2016) -- and through future acquisitions.

What this Means for the Industry

It will be interesting to see how this plays out. Humana is certainly leading the pack in terms of developing a well-coordinated, value-based, managed care model that others may follow – eventually. In the meantime, I expect we'll see another major player looking for acquisitions – namely Humana or its new subsidiary. Kindred has been on the M&A sidelines for over a year, having not announced a deal since August 2016, so adding a well-funded, growth-oriented buyer will certainly help strengthen the marketplace for quality home health and hospice providers.