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All's quiet on the M&A front

YARMOUTH, Maine - What has been a sizzling mergers and acquisition market cooled down considerably in the first quarter of 2006, with nationals like Apria, Air Products and Praxair scooping up few, if any, providers.

While Steven Richards & Associates, an HME M&A firm, has closed nearly the same number of deals in the first quarters of 2005 and 2006--five and four, respectively--President Rick Glass said "activity has been noticeably slower this year."

Reimbursement cuts to oxygen therapy and respiratory meds have forced the still-reeling nationals to re-evaluate their growth strategies, industry sources said.

"We have a lot of risk in the market right now," said Regina Bienkowski, vice president of Ultimate Resource. "Everyone's taking a step back. They're looking internally to make sure they can handle some of these changes."

The uncertainty that still surrounds the cuts could be making matters worse, said Bob Leonard, an M&A associate with The Braff Group.

"Acquisitions are driven by predictions of future revenues and profits, and it's hard to do that right now," he said. "What happens after the 36-month oxygen cap? Will there be a monthly maintenance fee? Everything's still undefined."

Unlike this recent round of reimbursement cuts for oxygen therapy and respiratory meds, previous cuts, including those outlined in the Medicare Modernization Act of 2003, were a long-time coming and more well-defined, allowing the industry to maneuver them more easily, sources said.

As a result, this M&A slowdown will last longer than usual, but it won't be permanent, sources said.

"Companies will return to the table," said David Sturdee, principal at the Clairvest Group, a private equity firm. "Public companies have to show shareholders that they are going to grow, and one attractive way to do that is through acquisitions."

Bienkowski agreed: "There are still a lot of things happening in the market that make the industry viable: the crunch on healthcare spending and home care as a low-cost alternative to that, and the aging demographic."

The makeup of the M&A market, however, may change. The 36-month oxygen cap may drive "quality providers" to sell, changing the supply and demand dynamics in favor of buyers, according to The Braff Group's M&A Annual Report released in late March.

Still, it's not a "fire sale," at this point, Bienkowski said.

At the same time, sellers may want to hold out, if they can, Sturdee

said.

"When buyers suspend buying activity, naturally, you're going to have more sellers than buyers, at least initially," he said. "If you need to sell, it's going to hurt your valuation. If you don't need to sell, and you can wait for buyers to begin buying again, it will stabilize supply and demand."

When the nationals do pull out their checkbooks once again, look for them to broaden their scope and consider different business models, industry sources said.

"A trend that we've started to see in the past 12-24 months is buyers are less focused on oxygen and Medicare," Sturdee said. "They're viewing other product categories and payers as viable."