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## H2C INDUSTRY INSIGHTS • M&A

# Why PACE Presents Strong Opportunity for Investment

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The growing trend toward community-based, integrated care continues to gain momentum, and this trend may even be accelerating in the midst of the pandemic. One of the more recent developments in community-based care is the formation and expansion of Programs for All-Inclusive Care for the Elderly, or “PACE,” also known in the mid-Atlantic states as “LIFE,” or Living Independence for the Elderly.

PACE programs are designed to manage the complex medical, functional, and social needs of seniors who require nursing home-level care, with the substantial majority of participants being Medicaid and Medicare beneficiaries. The goal of these programs is to reduce the cost burden of unnecessary nursing home admissions while allowing participating seniors to receive appropriate care and services at home or in other lower-cost settings.

For PACE enrollees, who have complex healthcare needs, these programs offer a vital way to receive highly integrated care and daily support that reduces total costs of care while protecting seniors’ independence. According to the National PACE Association (“NPA”), states pay PACE programs on average 13 percent less than the cost of caring for a comparable population through other Medicaid services, including nursing homes and comparable community-based waiver programs. And PACE programs demonstrate an ability to reduce hospital readmission rates, resulting in further savings the total cost of care.

## The Impact of COVID-19 on PACE

*PACE has generally performed well in the face of the pandemic. Operationally, PACE programs needed to adapt to the inherent risks associated with participants visiting the PACE center. Many PACE programs closed their centers and began to serve participants at home, whether through in-person visits, telehealth, or a combination of virtual and in-person services.*

*But while PACE appears to be on solid footing during the pandemic, the long-term impact of COVID-19 on PACE is not yet known. For example, PACE participants have been less inclined to visit specialists during the pandemic, and many are delaying elective-but-medically-needed care. Fewer visits to specialists result in lower near-term costs to PACE programs, with little impact on payment. However, the impact of delayed care on participants' overall healthcare costs remains to be seen. Additionally, some PACE programs may not experience continued growth in monthly participants during the pandemic, as concerns about COVID-19 risks could prompt some seniors to shy away from a center-based model of care.*

*Finally, programs face the challenge of deciding when to bring participants back into the center during the pandemic. The dilemma PACE leaders face is similar to the pressures faced by skilled nursing facilities, as the elderly are most at risk for contracting COVID-19. On the one hand, current participants may not remain satisfied with home-based care when PACE centers have closed to limit the spread of the virus. Because participants have the ability to opt out of a program in any given month, enrollment numbers following the coronavirus outbreak will be important to watch. On the other hand, if a large proportion of participants become infected, this could not only significantly raise costs for the program, but also damage its reputation. In light of these risks, some PACE programs may decide to delay bringing participants back to the center until a vaccine becomes available.*

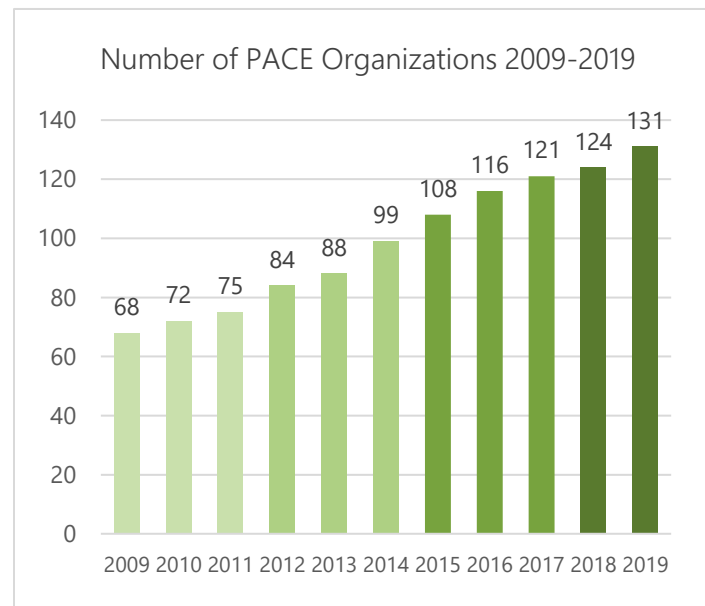
But PACE only exists in 31 states—and the limited reach of this program means many seniors who would otherwise qualify for services are unable to gain access. [More than two-thirds](#) of Medicaid-eligible seniors with complex care needs do not have access to PACE. Only eight PACE organizations have enrollment higher than 1,000; of these, three have enrollment higher than 2,000, and one has enrollment greater than 3,000.

As the need for PACE services rises, experts believe PACE is on the verge of significant expansion—presenting strong opportunity for home health providers and private equity investors.

## How PACE Has Evolved

Across the country, the need for PACE services is rising. As Baby Boomers age into Medicare at the rate of [10,000 per day](#), and as life expectancy increases, PACE will be critical to managing the trajectory of costs for the country's oldest and most frail patients. Net new enrollment for PACE rose 55 percent from December 2018 to December 2019, despite some state-level restrictions on annual increases in PACE program participants. Since 2012, PACE enrollment has risen at a compound annual growth rate of 14.1 percent. PACE enrollment ranked second highest among all Medicare capitated payment options for beneficiaries with high needs.

## Evidence of PACE Spread



Source: National PACE Association.

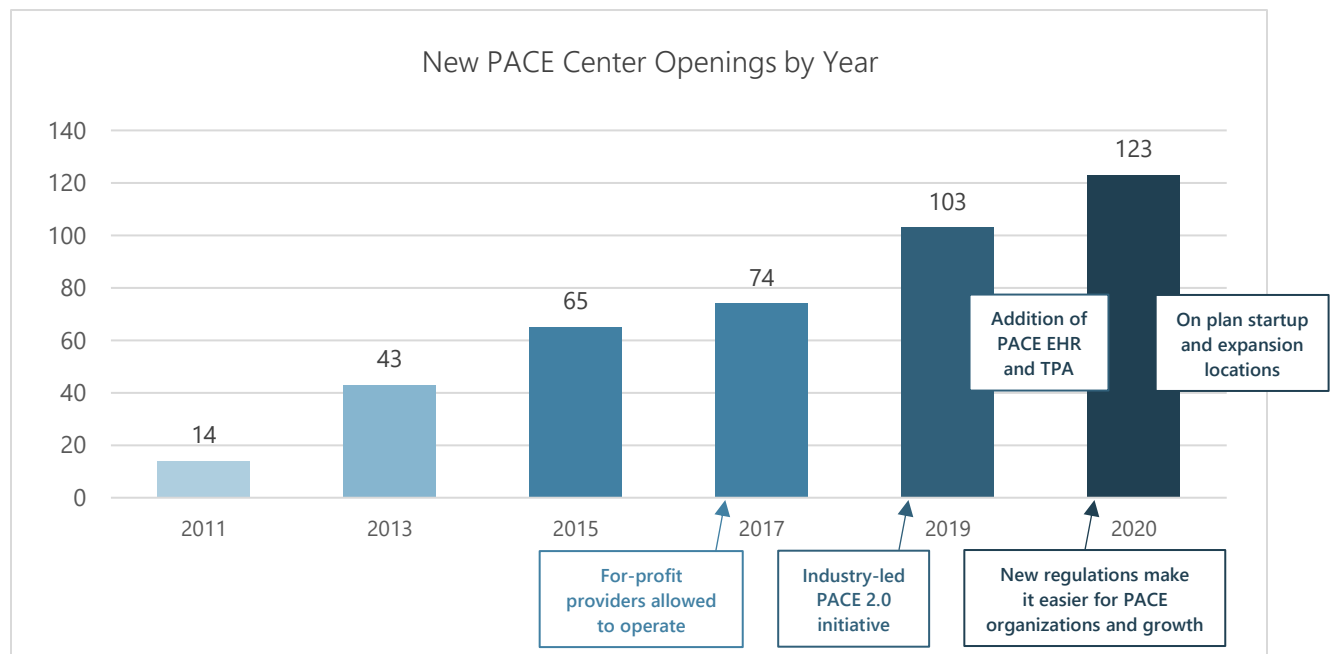
## PACE by the Numbers



Source: National PACE Association.

The evolution of PACE organizations has varied from state to state. As of March 2019, 31 states have developed PACE programs. In these states, PACE has gained in popularity, with the number of programs increasing dramatically from 2014-2018.

## New PACE Center Openings by Year



Source: National PACE Association.

## What Is PACE?

*PACE programs provide a range of comprehensive, fully integrated, interdisciplinary, team-based care for seniors who require nursing-home level care. The definition of PACE is broad, meeting a wide variety of needs for participants, from home-based clinical services to socialization to transportation.*

*PACE programs typically are staffed by a team of approximately 11 professionals who support each participant across the spectrum of care. The number of interactions a participant has with the team each week or month is important to maintaining continuity of care and understanding the participant's whole health needs. In any given month, the average PACE participant will visit the PACE center eight times, receive assistance for personal care 10 times, and have four therapy sessions, from physical to occupational therapy, according to the National PACE Association.*

*Maintaining a general sense of the health of the participants in a PACE program is essential given the at-risk nature of the PACE payment model. PACE programs receive a monthly capitated payment from Medicare for each participant as well as a payment from the respective state in which the program operates. Some states apply a capitated monthly payment, while others utilize a calculation under a managed care model.*

*To be eligible to enroll in PACE, a participant must meet the following criteria:*

- *Age 55 or above*
- *Certified to need nursing home care*
- *Able to live safely in the community at the time of enrollment*
- *Live in a PACE service area*

Yet PACE was largely overlooked by the investor community when it was created under the Balanced Budget Act of 1997. Back then, PACE organizations were required to be tax-exempt, not-for-profit entities. It wasn't until a 2015 federal study determined there were no meaningful differences between PACE services offered by investor-owned and nonprofit organizations that the Centers for Medicare & Medicaid Services ("CMS") allowed investor ownership of PACE programs under a 2016 proposed rule.

Private equity fund sponsor Welsh, Carson, Anderson, and Stowe ("WCAS") was one of the first investors to quickly step into PACE ownership in 2016 with its \$196 million acquisition of InnovAge, a large PACE organization based out of Denver. Although some hesitancy among investors remained, based on concerns that CMS would reverse course, these fears largely subsided when CMS published a final rule in July 2019, solidifying the ability for investor-owned organizations to own PACE programs. The final rule also changed the provision-of-services requirement from "primary care physician" to "primary care provider," enabling PACE organizations to deliver care using a nurse practitioner or physician assistant where state law permits.

The regulatory progression of PACE played a large role in shaping the current environment. With not-for-profit ownership the only option for nearly two decades, a large proportion of PACE programs was developed by not-for-profit organizations—from health systems to senior living centers and home health operators—that had a strong referral network and grew PACE as a complement to their business. Nonetheless, the PACE market today is highly fragmented. The five largest PACE programs—InnoVage, Centerlight Healthcare, AltaMed, On Lok Lifeways, and Providence ElderPlace—comprise just 24 percent of total market share. The remaining 76 percent of PACE participants are split across various providers.

For many of these providers, PACE was created with the intention of receiving referrals from an established source. One example is Gary and Mary West PACE, an independent, not-for-profit program that launched in San Marcos, Calif., in October 2019 with [\\$11 million in philanthropic funding](#). West PACE is an arm of aging-in-place powerhouse West Health, dedicated to lowering healthcare costs for seniors while preserving their dignity, quality of life, and independence. Gary and Mary West PACE program expects to receive participants from a home health operator. It is projected to grow at 15 participants per month.

### What Is PACE? (cont'd)

*However, the typical age of participants is well over 55. In fact, 85 percent of PACE participants are over the age of 65, and many of these older participants have a greater need for assistance with daily activities. A personal care attendant on the interdisciplinary team assists participants with activities of daily life ("ADLs"). About half of participants require assistance with one to four ADLs, and 35 percent need assistance with five to six ADLs.*

*Seniors do not need to be dual-eligible for Medicare and Medicaid to participate in PACE, as some programs accept Medicare-only payments, with the remainder paid out of pocket. However, such scenarios are not the norm. In 2019, 90 percent of participants were dual-eligible, 9 percent qualified for Medicare only, and 1 percent qualified for Medicaid only.*

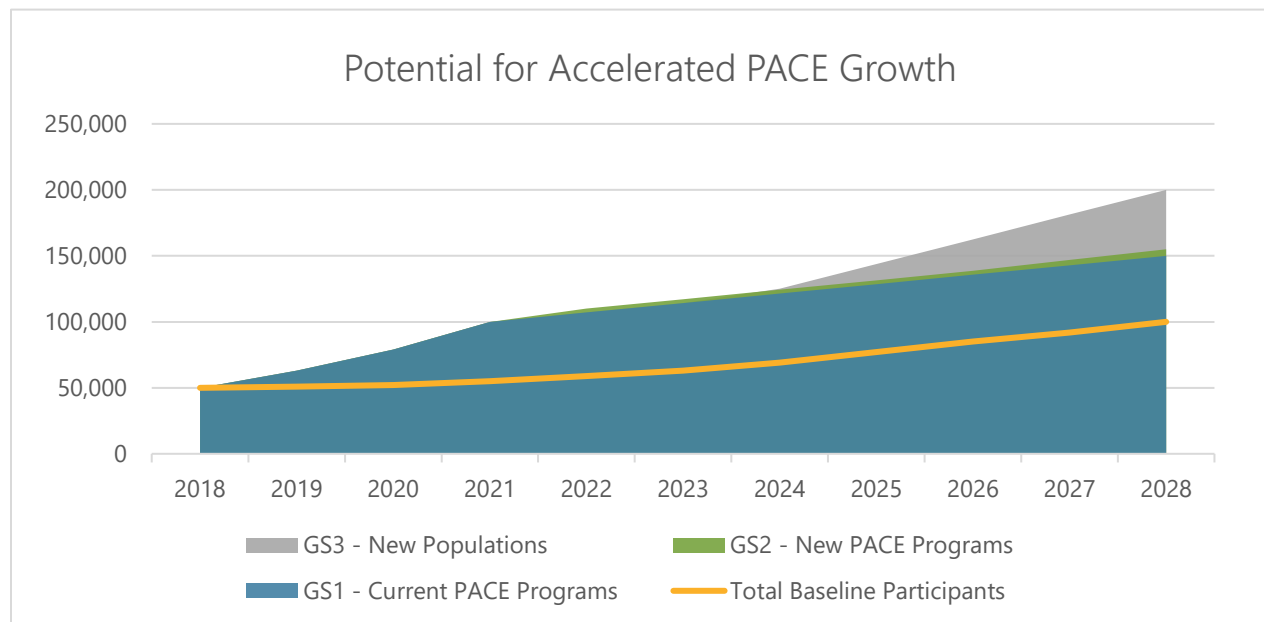
Other PACE programs are built based on community need and supported by the sponsoring member's referrals. For example, in 2017, [Sutter Health](#) partnered with [WelbeHealth](#) to bring PACE services to Stockton and Modesto, Calif., with Sutter presumably being the primary referral source. WelbeHealth—created by a group of physician entrepreneurs to provide high-touch, team-based, managed medical and social services to frail seniors—is based out of Menlo Park, Calif., and has raised \$67 million since its formation. The company is backed by the established venture capital firms of .406 ventures and F-Prime Capital.

### Navigating PACE Industry Tailwinds

The demand for PACE programs will continue to rise with an aging population, increased life expectancy, and improved opportunities for individuals to receive community-based care. CMS, in particular, appears supportive of PACE's expansion, easing some of the rules for PACE in June 2019 through a final rule that:

- Reduced the administrative burden for PACE organizations
- Provided more flexibility to allow participants to keep their primary care physician
- Clarified and simplified enrollment policies
- Set requirements for quality improvements

### Potential for Accelerated PACE Growth



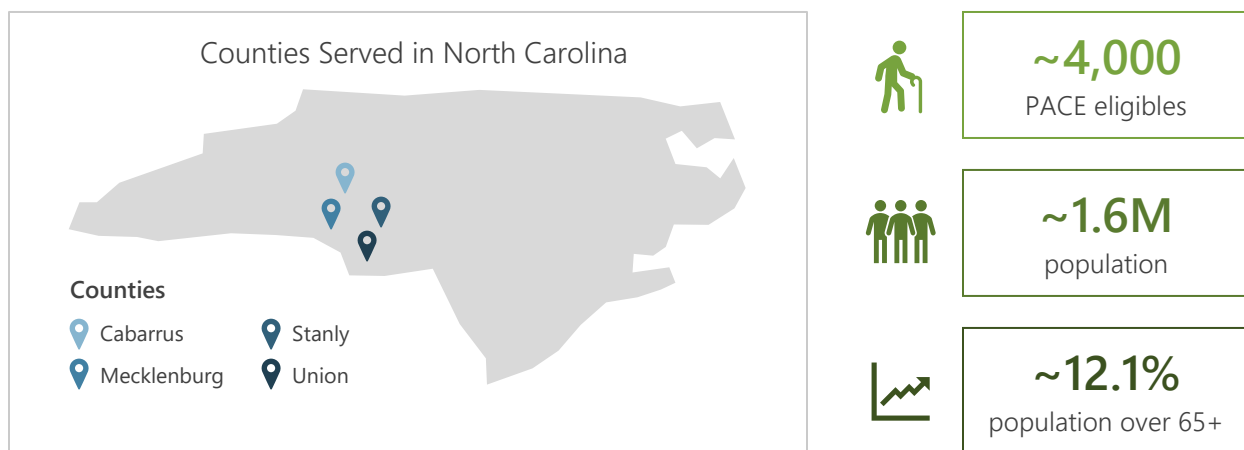
Source: National PACE Association, PACE 2.0 Project

## PACE of the Southern Piedmont | Partnership Search

Some PACE programs may find their projected need in the community stretches beyond their capacity for expansion. These organizations may require private equity investment or partnership with a health system or larger home health organization to take their services to the next level.

One recent example was PACE of the Southern Piedmont, which serves four counties in the Charlotte, N.C. area. In 2019, PACE of the Southern Piedmont served over 170 participants. However, projections for demand for PACE services within the Charlotte service area warranted expansion from one high-performing PACE center to two or three PACE centers to meet residents' future needs.

### North Carolina Service Area



Hammond Hanlon Camp, LLC ("H2C") served as PACE of the Southern Piedmont's investment bank and advised the program in its search for a partner. On behalf of PACE of the Southern Piedmont, H2C reached out to a variety of potential partners, both for-profit and not-for-profit, as well as several organizations that were not currently operating within North Carolina. After several interviews with management and key members of the Board, PACE of the Southern Piedmont received multiple offers at attractive valuations. The Board for PACE of the Southern Piedmont refined the list of potential partners to a select few, which consisted of for-profit and not-for-profit organizations, and assessed each organization's fit within the organization. During its decision-making process, the Board utilized a strategic framework that H2C and Renee Rizzuti, the Executive Director for PACE of the Southern Piedmont, created for the Board to help evaluate the potential options.

Ultimately, the Board elected to move forward with Kintegra Health and Lutheran Services Carolinas. The Board determined that Kintegra and Lutheran Services provided appropriate value for the program while also ensuring that the mission and culture of the program would endure. The transaction [closed on July 1](#). Under the agreement, the leadership, staffing, and operations for PACE of the Southern Piedmont remained the same.

"H2C's guidance throughout this process was instrumental in our ability to find a strategic partner that was aligned with our core mission and could help PACE of the Southern Piedmont grow," said Renee Rizzuti, Executive Director of PACE of the Southern Piedmont. "This was a great outcome not just for our team at PACE of the Southern Piedmont, but also the greater Charlotte region, which gains continuity in service and the resources needed for long-term growth."

It's important to note that each situation is unique, and PACE of the Southern Piedmont's experience may differ from other programs. PACE programs, by nature, are community-driven, and their strength is based in part on the extent to which it has forged relationships with local agencies and providers. As the home- and community-based provider landscape continues to evolve, PACE programs will continue to evolve, strengthening their position as an integral component of care coordination for seniors.

#### For More Information



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## About Hammond Hanlon Camp LLC

Hammond Hanlon Camp LLC ("H2C") is an independent strategic advisory and investment banking firm with a singular focus on health care. Our commitment to exceed our clients' expectations begins with senior leadership on every engagement and continues with independent and objective strategic advice. Our belief in the markets and in the power of competition has resulted in loyal clients and long-term relationships.

The experienced professionals at H2C are well positioned to serve as your trusted advisors. We have the expertise to understand the unique complexities of the healthcare industry and an in-depth knowledge of the range of potential alternatives essential to designing and implementing highly successful business and financial strategies. We bring in-depth knowledge and experience across the full continuum of care and across a wide range of healthcare-related businesses.

### H2C offers services in the following areas:

- Strategy design, development, and execution
- Mergers, acquisitions, and divestitures
- Capital planning and management
- Capital markets financial advisory and private placements
- Real estate advisory and transaction execution services
- Bankruptcy and restructuring

## About H2C's Healthcare M&A Team

Our healthcare M&A team has represented clients in the acquisition and divestiture of a wide variety of healthcare services companies, from hospitals, labs, and dialysis centers to home health care agencies, medical practices, and more.

Mergers and acquisitions can revitalize an organization and approaching any prospective transaction with objective analysis is key to its success. As trusted advisors at H2C, we strive to add value to our clients' M&A transactions in many ways, from assessing fair market value, identifying and prioritizing objectives, helping to keep your organization from falling victim to external pressures to approaching the market broadly, and using competition to drive the optimal results. Our commitment to exceed our clients' expectations begins with senior leadership on every engagement and continues with independent and objective strategic advice. The best possible result? A win-win for everyone.

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