

## **Healthcare Staffing: Buy, Sell or Build?**

*By*

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We recently attended the 2005 Healthcare Staffing Summit in Atlanta. In addition to hearing presentations on the overall strength of the healthcare staffing industry and its various sub-segments, De Bellas hosted a roundtable discussion on the current merger & acquisition market conditions and whether healthcare staffing companies should look to "buy, sell or build." We wanted to take this opportunity to share with you some of the key themes discussed.

### **What is the range of valuation multiples you are currently seeing in the market?**

There are many factors that determine the value of a privately-held healthcare staffing company. These factors include among other things:

- size and mix of staffing (i.e. per diem, travel, allied, clinical, etc.);
- the number of markets served;
- profitability, growth rate and customer make-up and concentration; and
- management's willingness to continue to manage the business after a sale.

However, generally the range of values currently being obtained in the marketplace is between 4.0x and 6.0x adjusted earnings before interest, taxes and depreciation ("EBITDA"), although there are outliers.

### **In what ways can I prepare to transition my company from a small business into a larger, more diverse staffing company?**

There are numerous factors an owner must consider before deciding to open additional branch offices or enter into a new specialty niche. These include:

- are the appropriate back office systems in place to integrate another location;
- how will this change affect malpractice and worker's compensation costs;
- does the company have sufficient financial support from partners and/or lending institutions; and most importantly,
- are the right people in place throughout the company to support growth?

Small business owners are able to be actively involved in a majority of the decisions that need to be made within their company. But to grow successfully, an owner has no choice to empower trusted, key personnel with some of that decision making authority.

### **What is more important to a buyer...growth or proven stability?**

The short answer is...both. Buyers typically want to see companies that have proven themselves in the markets in which they operate and that have grown their business to meaningful size. The size and growth rates desired vary amongst buyers. Depending on their acquisition criteria, some buyers are more interested in companies that have demonstrated double digit growth year-over-year, while other buyers place greater importance on acquiring a stable business in a market where they currently do not have a presence. Generally, however, growth will be favored.

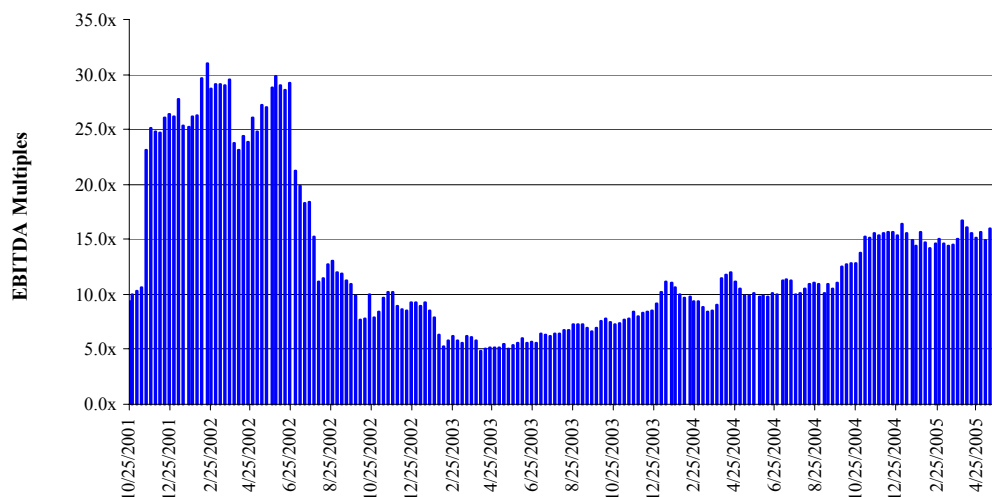
### **Does having JHACO certification increase the value of my business?**

As of June 1, 2005, only 22 organizations had received JCAHO certification. Therefore, it is still too early to determine the impact that JCAHO certification will have on a firm's value. However, hospital administrators are demanding a higher level of quality from their staffing providers and the personnel they provide.

## How do I know if now is the right time to sell my business?

This is a difficult question to answer without more information. I believe a better question would be - is this the right time for you to sell your business? What factors are driving your decision to sell: are you ready to retire, are you unable to grow the business without a partner, or are you simply trying to time the market to extract the most value for your business. These are all common reasons that drive business owners to sell their companies. Publicly-owned healthcare staffing companies have seen their EBITDA multiples steadily increasing since the first quarter of 2003 when they were trading around 5.0x EBITDA (see chart below). And, even though privately-held companies receive lower valuation multiples because of the illiquidity of their equity, this rising trend in public company multiples tells us volumes about the overall improving strength of the industry and typically serves as a leading indicator to merger and acquisition activity.

**Valuations of Public Healthcare Staffing Firms**



Companies represented: AHS, CCRN, MRN

## What is the process of selling a healthcare staffing company?

The key steps involved are:

- preparing financial records that accurately portray the business;
- identifying and qualifying potential buyers;
- preparing a confidential information memorandum that accurately describes the business;
- marketing the business to buyers – public, private, strategic, and financial;
- evaluating offers; as well as
- negotiating the appropriate structure and deriving the most value out of each offer.

Since owners have significant investments of both time and money in their business, we always recommend that an owner hire experienced professionals (accountants, attorneys, investment bankers) to assist them throughout the sale process.

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