

## Inferential Focus Due Diligence Services

**Example:** “Alpha Healthcare Services” Potential Private Equity Acquisition of IF Client X

### “Alpha” Corporate Profile:

Provider of high quality, low-cost home health services including skilled nursing, home health and personal care aide, medical social work, high-tech pediatric care, hospice, and physical, speech, and occupational therapies.

With a history of numerous mergers and acquisitions, Alpha just completed the acquisition of a smaller regional home healthcare service and plans to conduct three or four more acquisitions in the near term.

Alpha focuses on patient services for those enrolled in the Medicare and Medicaid programs.

### *Inferential Focus Insights and Relevant Change Dynamics:*

**The state of home healthcare:** The demographics of an aging US population are undeniable. The aging of the population may actually accelerate from here given the potential for advancements from various medical arenas (biotech, stem cell, genomics, etc.). That half of Americans reaching age 65 will live to 92 surprises many, and that number is likely to grow. We have also seen a very strong desire by the elderly and by the aging boomer population **to live at home** and remain active, avoiding institutional care whenever possible. There is also some conclusive history indicating that home health care is a more cost effective option for chronic and some acute care. These new realities imply increased demand for home health care services for the elderly

- **State and Local Budget Squeeze Dynamic:** Medicare and Medicaid, the main revenue sources for “Alpha” under its current business plan, are two major government **programs in flux**. Medicare is a federal program which is facing increased scrutiny as the large “Boomer” generation heads toward retirement and President Bush has called for cuts to this program. Medicaid programs are partially state funded, a major difficulty considering the large number of state budget deficits that have arisen of late. Some states have frozen new enrollments for services such as those provided by “Alpha”. Alpha’s business model is closely tied to two very politicized programs, a risky proposition.
- **“Sandwich Generation” Dynamic:** Many middle-aged Americans are juggling the dual costs and responsibilities of supporting their children and their own parents at the same time. This has increased the demand for low-cost elder care services.
- **Nursing Shortage Dynamic:** The endemic shortage of qualified nurses in the United States has led to aggressive moves by American healthcare facilities to import nurses from overseas, especially the Philippines. Alpha will have to work to keep **personnel acquisition** costs in check, and we recommend that they seek alliances with nurse-training institutions, since a large amount of the company’s personnel needs are skilled nurses.
- **Telemedicine Dynamic:** Alpha should explore the use of **telemedicine** in its home healthcare strategy as many of these products have been shown to vastly improve patient care, increase efficiency, and reduce the burden on personnel.