

# PENUMBRA

FOR OWNERS OF HOME HEALTH AND HOME CARE AGENCIES,  
ASSISTED LIVING FACILITIES, AND ADULT DAY CARE CENTERS



## Sellers' Secret Sauce

### Best Practices for Selling Senior Care Operations

In 2024, we introduce this new section on best practices used by sellers to get the prices and terms they want and quickly sell their operations. We will present helpful information on (i) what successful sellers do before they take their operations to market, (ii) how their deals are priced and structured, (iii) what resources they use during the selling process, and (iv) how they **(cont'd)**

## Financing

### Seller Financing: Getting Deals Done

As the Federal Reserve uses interest rate hikes to fight inflation, the cost of borrowing for business acquisitions has substantially increased. Bank underwriting guideline have tightened. Many sellers and buyers have opted to use Seller Financing to get their deals through closing. Seller Financing remains an integral component in structuring business acquisitions. The International Business Brokers Association's Market Pulse Surveys reported that **(cont'd)**

## et cetera

- The Journal of the American Medical Association reports that more than 25% of older adults fall each year. Falls are the leading cause of injury-related deaths in older persons. Functional exercises to improve leg strength and balance are recommended for fall prevention in average-risk to high risk persons.

- Under certain conditions, a Seller note may be considered part of the equity injection requirement for an SBA guarantee loan. Some of those conditions include at least a 10% **(cont'd)**

## Market Watch

### One Million Additional Direct Care Workers Needed in US by 2031

The Alzheimer's Association's *2024 Alzheimer's Disease Facts and Figures* reports that America will need at least an additional 1,000,000 direct care workers between 2021 and 2031 to support seniors. "The job growth is occurring primarily among personal care aides and home health aides, reflecting the overwhelming preference for 'aging in place' and public policies that have expanded access to home and community-based services," the report concludes. North Carolina will need 82,070 direct care workers by 2031, up 26% from 65,150 in 2020. Virginia will need 73,160 direct care workers by 2031, up 29.7% from 56,390 in 2020. South Carolina will need 41,850 direct care workers by 2031, up **(cont'd)**

## Regulatory Watch

### CMS 80/20 Rule May Take Affect in Early 2024

The Center for Medicare & Medicaid Services (CMS) may implement the "80/20" Rule in early 2024. Implementing the Rule may have a material impact on how home care agencies attract and retain direct care workers and how they compete in the marketplace. CMS states that the 80/20 Rule will "...require that at least 80 percent of all Medicaid payments, including but not limited to base payments and supplemental payments, with respect to the following services be spent on compensation to direct care workers: homemaker services, home health aide services and personal care service." The intent of the Rules may be to act as a lever to increase direct care wages. According to PHI, a NY-based health care policy advocacy group, one in four direct care workers live below the federal poverty line. **(cont'd)**



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### Secret Sauce (cont'd)

manage the transaction after closing. No one area is more important than another. Successful sellers plan their sale and then work their plans to succeed. In this segment, we discuss the early stage of the selling process - getting the business's house in order for the sale.

### Getting Your Books In Order.

Accounting is the language of business. Generally accepted accounting principles apply standards in recognizing revenue and expenses. You can't tell your story if you do not have a good accounting system. Successful sellers use certified public accountants (CPAs) to manage or validate the company's financial statements. You should have at least three years of CPA-prepared financial statements. If you primarily have a cash-based business, be sure to deposit and record these receipts as sales. Do not simply take the cash to immediately buy business supplies or services. If you do not record the sale, you under report the businesses gross receipts. Such a practice can artificially depress your business's market valuation. Buyers shy away from operations that do not demonstrate strong sales growth. Keep your personal expenses out of the business. This practice distorts your operation's cost efficiency ratios. If you need cash for personal matters, pay yourself a regular W-2 wage. Be sure to timely file your business taxes too.

### et cetera (cont'd)

equity injection and full standby of the Seller note for 24 months.

- Wilson Towers Watson's 2023 Leave, Disability and Time-off Trends survey in January 2024, found that 84% of employers participating in the survey plan to make changes to their leave policies within the next two year. Making changes to the leave policies is aimed at boosting employee recruitment and retention according to Willis Towers Watson. Among the changes considered are caregiver leave, parental leave, and bereavement leave.

### Market Watch (cont'd)

31.8% from 31,750 in 2020. The largest segment of the workforce that supports people living with dementia is the direct care workforce. The long-term care industry is already struggling to fill existing direct care positions. Turnover rates are high in the direct care workforce with an estimated median turnover rate of 77% annually for direct care workers providing home care. In turn, instability in the direct care workforce and understaffing have led to stress, injury, and burnout among this workforce.



### Regulatory Watch (cont'd)

The Rule may transfer more Medicaid dollars to direct care workers, but may put negative pressure on owners' profits. Medicaid reimbursement rates are currently much lower than private pay rates. This Rule may have the unintended effect of (i) forcing owners to trade Medicaid census for private pay census, (ii) putting upward pressure on other labor rates within the company, and (iii) tempting owners to cut costs in some areas that may possibly impact client's quality of care.

### Financing (cont'd)

between 12% to 15% of most smaller sized transactions (see chart below) used a financing structure that included a Seller Financing component. Forbes reports that the



advantages of Seller Financing includes (i) it increases the potential buyer pool, (ii) buyers tend to view these transactions as being less risky, (iii) Sellers can earn significant interest rates on the Seller notes, and (iv) there are potential tax advantages to the Seller. Potential disadvantages are (i) Sellers may get less at closing, and (ii) Buyers may default on the Seller notes.

