



## Market Watch

### Home Care Agencies Dominate the NC Market

Home Care Agencies continue to dominate the NC market for senior care services. In July, the NC Division of Health Service Regulation licensed 2,277 HCAs across the state. This figure significantly dwarfs the number of adult care (595) and family care (593) facilities in the state. HCAs market prominence is consistent with long-term trends by senior consumers to “age in place” instead of leaving their homes for senior care assistance. However, the HCA industry faces old and new challenges in the post-Covid 19 era.

(cont'd)

## Education

### 3 Must-Haves for Buyers.

There are three conditions the deal must meet in order for the buyer to say “yes” and close the transaction. First, the business must generate enough seller discretionary earnings (SDE) to pay the buyer a reasonable salary with benefits. Second, the business must generate sufficient cash flow to service any business debt the buyer incurs to acquire the business. Finally, the business must generate sufficient cash flow to give the buyer a reasonable return on her invested capital. (cont'd)

## Financing

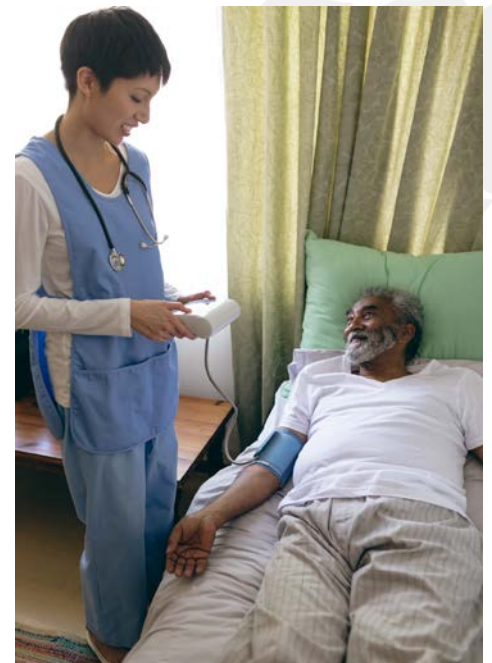
### SBA Biz Acq Lending up 16% in July

In its July 16 weekly report, the Small Business Administration (SBA) reported a 16% increase in fiscal year-to-date SBA 7(a) approved loans for change in ownership compared to the prior 2020 period. Change in ownership loans rose to \$4.5 billion in 2021 compared to \$3.9 billion in the prior comparable period. Loans in the \$350,000 to \$2 million range (a range where many small adult care and family care facilities close SBA loans) rose 41% in the same period. Total loans in this range topped \$9.7 billion in the current period versus \$6.9 billion in the prior period. (cont'd)

## Regulatory Watch

### NC Medicaid Program is now Managed by Commercial Insurers

On July 1, NC will join the growing list of states that have commercial managed care insurers administer its state Medicaid program. As of May 21, about 15% of nearly 1.5 million enrollee have self-enrolled into the program. The State will auto-enroll the remaining enrollee in one of five health plans. Carolina Complete Health, which serves Regions 3, 4, and 5, will enroll about 13% of the enrollee. The remain big 4 (AmeriHealth Caritas, HealthyBlue, United Healthcare, and WellCare) will each get about 21% (cont'd)



## et cetera

- CDC data shows that as of July 13, nearly 79% of seniors in the US are fully vaccinated,
- CDC eviction moratorium ends July 31 as US Supreme Court rules CDC's actions as unconstitutional.
- Over half of the adults unvaccinated for COVID-19 fear needles (North Carolina Health News - 6/26/2021)
- July 24 is International Self Care Day
- More than 40% of nurses and other healthcare (cont'd)

FOR SELLERS AND BUYERS OF SMALL ADULT CARE FACILITIES,  
HOME CARE AGENCIES, AND MEDICAL PRACTICES

## Education cont'd

### Reasonable Salary and Benefits

A buyer is, in effect, buying a job. She must make a reasonable wage for the services she provides. Since she is the new boss, the new buyer will also want the similar perks that the prior owner enjoyed (e.g., travel and entertainment allowance, health and life insurance, car allowance). These benefits should be comparable to what she would have gotten if she accepted a senior leadership role from an employer.

### Debt Service Coverage

The operation must generate sufficient cash flow to service any business acquisition debt incurred by the new owner. These debts may include the seller's promissory note and any bank notes. Typical bank underwriting standards require a debt service coverage ratio (DSCR) of 1.25 or more. This means the bank will require that the cash generated to service all business debt must be at least 25% more than the minimum amount to service the debt. Below this 25% means the business may struggle to meet its debt service obligations.

### Return on Invested Capital

Finally, the new owner wants to get a good return on the money she invested into the business. She probably made a substantial down payment toward the purchase price. The new owner expects a reasonable return on that money.

## Regulatory Watch (cont'd)

of the enrollment pool. The State reports that over 97% of enrollee are members of a plan that includes their current primary care provider in-network. August 31 is the last date out-of-network claims are paid at the in-network rate. September 29 is the last date the health plan honors existing prior authorizations. Within 18 calendar days of receiving a claim, the Health Plan must notify the provider whether the claim is clean or requires additional information. The Health Plans must pay providers within 30 days of claim receipt or pay interest on those claims.

## Market Watch cont'd

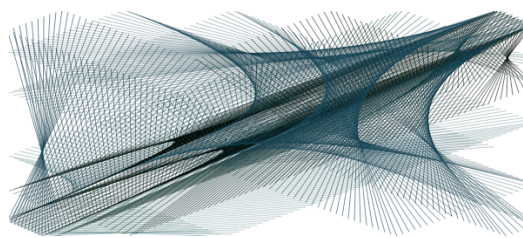
**Attracting and Retaining Talent.** The ongoing labor shortage and recent incentives to extend unemployment benefits has reduced the nurse, LPN, and nurses aide pools.

**Remote Work.** Staff have more remote work options in competing industries and are pursuing these opportunities.

**Safety Concerns.** Staff still have grave concerns about working in healthcare in the post-Covid 19 era.

**Rate Caps.** Reimbursement rates remain a challenge for the industry and some economists forecast that rate increases will not keep pace with healthcare operating costs.

**Low Barriers to Entry.** Although regulated, the industry is relatively easy to enter and exit. This invites competition and puts pressure on profits.



## Financing cont'd (i)

The number of loans for business acquisitions rose 6% in the current period totaling 4,228 loans. The number of loans approved in the \$350,000 to \$2 million range rose 41% to 11,161. This current level of SBA funding in business acquisition loans and loans in the \$350,000 to \$2 million range is the highest loan dollar volume in the past 5 years.

SBA 504 loans are not typically used in business acquisition situations. During the current July 2021 period, SBA approved 129 business acquisition loans for a current year-to-date total of \$118 million.

2020 saw a slow down in business acquisition transactions, which, in turn, reduced the need for acquisition financing. However, the SBA's recent incentive programs (e.g., reduced SBA-guarantee fees, loan forgiveness, payment postponement graces, PPP) has fueled demand in 2021 to close more loan transactions. Coleman Report ([www.colemanreport.com](http://www.colemanreport.com)), a trusted SBA industry expert organization, predicts that SBA 7(a) loan dollar volume will exceed \$30 billion dollars by the end of fiscal 2021 (September 30, 2021).



## et cetera (cont'd)

had risks associated with an increased likelihood of burnout early in the pandemic (American Journal of Nursing of Nursing, August 2021)

- Leading Edge joined 56 other healthcare professional associations in a joint statement supporting employers mandating COVID-19 vaccines for all workers in health and long-term care (McKnight's Senior Living, July 26, 2021)

- President Biden is reviewing The Better Care Better Jobs Act (S. 2210) which would (i) add a permanent 10% increase in Medicaid funding for delivering home care agency services, (ii) passing rate increases through to direct care workers to increase wages, and (iii) process improvements.

