Nursing Homes & Long-Term Care Facilities

1.27.2014
NAICS CODES: 623
SIC CODES: 8051, 8052, 8059, 8361

Industry Overview

Companies in this industry provide long-term skilled nursing care and social services in residential facilities. Major US companies include Brookdale Senior Living, Golden Living (owned by GGNSC Holdings), HCR Manor Care, and Kindred Healthcare (all based in the US), along with Bupa (UK), Extendicare Canada, Korian (France), and Orpea (France).

Internationally, demand for nursing homes and assisted living services is growing along with the number of elderly people. While the number of nursing facilities varies by region, a growing number of countries -- particularly those with some form of national health insurance -- are experiencing an increase in demand for long-term care options for their aging and infirm citizens.

The US nursing homes and long-term care facilities industry includes about 80,000 establishments (single-location companies and branches of multi-location companies) with combined annual revenue of about $200 billion.

Competitive Landscape

Demand for nursing care is linked to the demographics of the US population. The profitability of individual nursing facilities depends on efficient operations, as revenue per patient is largely controlled by the big government insurance programs, Medicare, and Medicaid. Large companies have some economies of scale in administration and purchasing, but small operators can compete effectively by offering better service. The US industry is fragmented: the 50 largest companies account for about 20 percent of revenue.

Products, Operations & Technology

The industry includes skilled nursing facilities for recovery from acute or chronic medical conditions (more than 60 percent of US revenue), mental health and substance abuse facilities (about 9 percent), and various types of independent living, community care, and assisted living arrangements.

Service Segmentation by Revenue - Census Bureau
Nursing homes typically care for patients recovering from major medical procedures and older patients with chronic disabilities and deteriorating mental and physical capacities. A wide array of health care and dependent-care services are provided including 24-hour nursing care; physical therapy; help with activities of daily living (ADL) such as bathing, eating, and dressing; housekeeping; food service; personal services; and leisure activities.

Community care facilities include community-based residential facilities and adult family homes where small groups of individuals live and receive care, assisted living complexes where aides help residents with some daily activities, and residential care apartment complexes (RCAC) that provide independent apartments and some nursing care.

In 2013, occupancy rates for US nursing homes and community care facilities were just under 90 percent, according to the National Investment Center (NIC) for the Seniors Housing & Care industry.

Nursing care facilities often contract services from other health care providers to broaden their range of services without incurring added labor and equipment costs. Providers include pharmacies, medical directors, hospice care services, and a variety of physician specialists including dentists, podiatrists, therapists, psychiatrists, and ophthalmologists. Large facilities and chains are more likely to contract with outside health care providers than are small independent facilities.

Technology includes computers, electronic health records (EHR), medical equipment, and security and fire systems. In particular, nursing homes have embraced EHR. Correct application of technology and compliance with federal regulations have become increasingly complex and increasingly important to nursing home operations.

Sales & Marketing

Through sales staff, nursing facilities market their services to health insurers, hospitals, individual doctors in fields like surgery and gerontology that are likely to need long-term care for their patients, local agencies for the aging, social workers, and financial planners serving aged clients. Like other health care providers, nursing care companies often enter into contracts with insurers to provide care at specified rates for members.

Marketing for most assisted living and residential care facilities is aimed at individuals and family members. Advertising includes web sites; direct mailings; print advertisement in newspapers, magazines, and Yellow Pages; billboards; and public events such as open houses, health fairs, and community outreach events.

High-end residential care facilities market to the affluent. These properties depend less on Medicare, Medicaid, and private insurance and tend to have lower but more profitable growth. Many provide various levels of care ranging from subacute nursing facilities to retirement communities with nursing-support services.

Finance & Regulation

The US nursing home industry receives more than half of its revenue from Medicare and Medicaid reimbursements. Medicare generally covers only medical care but not assisted living or community care, and only covers a patient’s first 100 days of skilled nursing care. Medicaid pays for certain health services and nursing home care for older people with low incomes and limited assets; many Medicaid programs (which vary from state to state) cover long-term care services costs. Companies typically apply to qualify for Medicare and Medicaid programs. The median cost per day to consumers for skilled nursing care is about $200, according to Genworth Financial.

Nursing homes are labor-intensive: average annual revenue per worker in the US is about $65,000. The industry
is a common way for nursing facilities to expand without incurring the liability, which varies sharply from state to state. The Affordable Care Act (ACA) includes provisions aimed at improving nursing home quality, transparency, and safety. To comply with these new requirements, nursing homes will have update its processes for capturing and reporting data on payroll, financial interests, staff training and capabilities, and other aspects of operations.

Nursing facilities are subject to inspections by government authorities to assess regulatory compliance. If non-compliant, regulators may give a facility an opportunity to correct deficiencies, issue a conditional license, suspend or revoke a license or certification, impose fines and other sanctions, or deny new patient admissions.

International Insights

Around the world, demand for nursing homes and assisted living services is growing along with the aging population. According to the World Health Organization, the global population of people over 60 is expected to hit 1.2 billion in 2025. The percentage of elderly living in nursing homes varies by country; in Norway that figure is 6.6 percent, in the UK 4 percent, and in the US about 8 percent.

How people pay for care also varies. In Germany, Japan, the Netherlands, and the Republic of Korea, citizens are required to pay into a long-term care insurance fund. In other places the country's national health care system pays for some care. In Canada, residential care facilities are not covered under the Canada Health Act, but provincial health insurance plans and social assistance cover some of the costs.

Financing long-term care for the elderly and disabled is one of the most pressing issues for countries rich and poor. Expenditures on long-term care as a percentage of total health care costs varies by country. Among high-income countries, Switzerland, Denmark, Norway, and Iceland have the highest percentage of long-term care expenditures (15 to 18 percent). By contrast, Spain spends barely 2 percent. Among low- and middle-income countries, the average is 8 percent, according to WHO.

The aging populations in Europe and Asia are straining health care and social safety nets in many countries. Falling birthrates have compounded the issue, as fewer workers pay into the system. In Germany, about 20 percent of the population is over 65. Germany's system is pay as you go, which means premiums are immediately allocated for care. The country is investigating whether changing the system to a prepayment model would allow funds to grow before they are needed; however, that would mean an increase in personal payments or more government funding.

In China, the one-child policy has made it harder for grown children to care for their elderly parents, as has been traditional. China has an estimated 177 million people over the age of 60 out of a total population of 1.4 billion, driving demand for nursing homes, according to China Watch. Currently, the country has enough beds to meet the needs of only 1.8 percent of the elderly population, compared to the 5 percent to 7 percent in Western countries. The government is open to international development of nursing homes, the majority of which are funded through private industry (except in rural regions).

Elder abuse is also a significant problem worldwide, according to the WHO. Up to 6 percent of the elderly have experienced some form of abuse. But facts are hard to come by because there is little information about maltreatment within elderly populations, especially in developing countries with minimal regulations. Older people are often afraid to report abuse to family, friends, or to the authorities.

Regional Highlights

Because US nursing homes are subject to different reimbursements under state Medicaid programs and different liability laws, which affect insurance premiums, profitability can vary widely from state to state.

By geographic region, two-thirds of nursing homes are located in the Midwest and South. Facilities in the Northeast tend to be larger, with an average 140 beds compared to the national average of 100.

Demand for nursing home services is driven by the aging population, which varies sharply from state to state.
The US population 65 and older is expected to increase by more than 50 percent between 2015 and 2030; people 65 and over will account for 25 percent of the population in Florida, Maine, Montana, New Mexico, North Dakota, and Wyoming in 2030.

**Human Resources**

The average US nursing care facility has around 50 staff members per 100 beds (7 registered nurses, 11 licensed practical nurses, and 35 certified nursing assistants). Government-run facilities have nearly 60 staff members per 100 beds. Adequate staffing is often a major problem, because of the labor-intensive nature of nursing care and the industry’s low wages. Although supervisory jobs may be held by skilled nurses, most workers are aides with little special education or training. Nurses and aides typically receive lower pay than they would in an acute-care hospital. Overall, average hourly industry wages are moderately lower than the US average.

Annual personnel turnover can be quite high for both administrators and aides. High turnover results in near constant training of new workers, which is costly. Nonprofit nursing homes tend to have higher staffing levels and lower turnover than for-profit. Administrators of for-profit homes are under increased pressure to turn a profit, leading to turnover at the top.

Facilities may employ unionized nurses and support workers, resulting in periodic labor and wage negotiations.

**Industry Employment Growth**

Bureau of Labor Statistics

**Average Hourly Earnings & Annual Wage Increase**

Bureau of Labor Statistics

**Companies**

<table>
<thead>
<tr>
<th>Company</th>
<th>Country</th>
<th>Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kindred Healthcare, Inc.</td>
<td>United States</td>
<td>$6,181.29M</td>
</tr>
<tr>
<td>Select Medical Holdings Corporation</td>
<td>United States</td>
<td>$2,948.97M</td>
</tr>
</tbody>
</table>
Business Challenges

High-Risk Workplace - The nursing and residential care industry's annual injury and illness rate is more than double the national average. Nursing aides, orderlies, and attendants are most at risk from injury due to manually lifting patients and working closely with mentally ill or violent patients.

Consolidation in Managed Care; Reduction in Fees - Nursing home operators contract with insurers and managed care organizations (MCOs) to provide care. With the ongoing consolidation of the managed care industry, nursing homes are left with fewer payers to contract with, increasing competitive pressure. MCOs are also reducing fees to lower health care costs.

Liability for Resident Care, Safety - Lawsuits against nursing homes and other residential care facilities have risen due to incidence of resident neglect, abuse, and fraud. To reduce the risk, many nursing companies are screening potential employees by conducting tougher background checks and increasing staff supervision. Many companies include arbitration clauses in their contracts with new residents to protect against costly court cases, but this strategy is being questioned by regulators, patient advocacy groups, and families.

Changing Long-Term Care Insurance Market - Just when nursing homes and residential care facilities were seeing an influx of residents with long-term care policies, many insurance companies hiked their premiums or exited the market entirely. The policies were becoming highly unprofitable as customers lived longer, and older nursing home patients require more expensive care. Premium price hikes of around 40 percent became common, deterring potential customers.

Call Prep Questions

Conversation Starters

How will health care reform affect the company's revenues?
Several provisions of the federal Affordable Care Act (ACA) will have a significant impact on the nursing home industry.

How is the company curbing labor expenses?
Labor-associated costs typically make up 50 percent of all nursing facility expenses.
What is the company doing to improve worker safety?
The nursing and residential care industry's annual injury and illness rate is more than double the national average.

How large a demand increase does the company expect in its markets, and what plans does it have for expansion?
Between 2015 and 2030, the number of Americans 65 and over will increase around 50 percent to around 72 million, raising demand for nursing services.

What opportunities for assisted living exist in the company's markets?
Demand for assisted living, which provides less intense care than nursing homes, is growing rapidly due to a low-cost structure and community atmosphere.

How can the company benefit from the growth of continuing care communities?
The popularity of continuing care retirement communities (CCRCs) is rising.

Quarterly Industry Update

How can the company address the rising liability costs in the long-term care industry?
The increasing number of lawsuits against nursing home and long-term care facilities is driving up liability costs.

Operations, Products, and Facilities

Is the company a nonprofit or for-profit operation?
About 45 percent of nursing homes and residential care facilities are operated by nonprofit organizations.

Does the company focus on skilled nursing, chronic nursing care, assisted living, or a combination?
Chronic or postoperative nursing homes form the bulk of the industry. Assisted living has had strong growth in recent years.

How many facilities does the company operate?
Most facilities are operated independently.

What is the average number of beds per facility?
The US average is about 100.

What is the facility's average occupancy rate?
Bed occupancy rates can be as high as 90 percent.

What supplemental services does the company offer?
Supplemental services such as rehabilitative, restoration, and/or wellness, improve nursing home revenue.

How have higher liability costs affected the company?
Nursing homes face increased liability costs due to more lawsuits alleging inadequate care.

Customers, Marketing, Pricing, Competition

How does the company market its facilities?
Nursing facilities market services to health insurers, hospitals, individual doctors in fields like surgery and gerontology that are likely to need long-term care for their patients, local agencies for the aging, social workers, and financial planners serving aged clients.

How does the company market to adults looking for care for elderly parents?
Many housing decisions for elderly parents are often made by adult children, who are mostly uninformed about the many choices available.

What non- and for-profit competitors serve the same markets?
In many markets, consumers have several choices for nursing care.

What types of advertising does the company use?
Advertising includes direct mailings; print advertisement in newspapers, magazines, and yellow pages; billboards; websites and electronic correspondence; and public events such as open houses, health fairs, and community outreach events.

Regulations, R&D, Imports and Exports

Has the company had difficulty complying with state or federal regulations?
The nursing home industry must comply with numerous regulations.

What opportunities or challenges does the company see in operating facilities outside the US?
Companies that operate facilities outside the US are subject to foreign business laws, market competition, and health regulations. Foreign countries with high demand for nursing facility services include Germany, Japan, and Russia, where birthrates have fallen and the elderly are a growing demographic.
**Organization and Management**

**How competitive are the company's wages?**
Average industry pay is moderately lower than for other US workers.

**How much has labor turned over in recent years?**
Labor turnover at individual facilities can be quite high.

**How have the company's hiring and management practices changed in recent years?**
Many facilities now require criminal background checks and greater supervision of employees to prevent cases of patient abuse.

**How has the company managed labor shortages?**
Experienced nurses are in short supply; companies turn to temporary workers to fill gaps in coverage.

**Financial Analysis**

**What is the company's payer mix percentage among Medicare, Medicaid, private insurance, and private pay?**
Medicare and Medicaid reimbursements pay for more than half; private insurance and private pay accounts for the rest.

**What is the average daily revenue per patient?**
Average revenues are about $200 per day for nursing homes and $100 for assisted living facilities.

**What is the average annual revenue per facility?**
The average nursing home has $5 million of annual revenue.

**Does the company offer service fees that are charged “unbundled”?**
Charging for services separately is a new trend.

**What formal programs does the company have to control costs?**
Many companies use IT to manage staff more efficiently.

**If the company is nonprofit, does it receive endowment income, government funding, or other supplemental revenue?**
Smaller nonprofits sometimes have financial advantages over for-profit ventures because of access to endowment, charity, church, and local government funding.

**How have liability insurance fees affected the company's operations and profitability?**
Some companies do not operate in Florida because of high liability costs.

**What is the company's expansion strategy?**
Some operators made acquisitions using large amounts of debt.

**Business and Technology Strategies**

**How large an increase in demand does the company foresee in its markets?**
Long-term demand for nursing home services is expected to be strong, but with variations from state to state.

**What kind of demand does the company expect for nursing homes or for assisted living care in its markets?**
Income is a major determining factor, since assisted living isn't typically paid for by Medicaid programs.

**How does the company use new technology to reduce medication errors?**
Health care IT and electronic health records are used to increase efficiency and quality of care.

**What technology challenges is the company encountering?**
Establishing electronic health records can be expensive and time-consuming.

**What technology investments is the company planning in the coming year?**
The federal government is dedicating funds to expand health care IT and the use of electronic health records.

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**Financial Information**

**COMPANY BENCHMARK TRENDS**

**Quick Ratio by Company Size**
The quick ratio, also known as the acid test ratio, measures a company's ability to meet short-term obligations with liquid assets. The higher the ratio, the better; a number below 1 signals financial distress. Use the quick ratio to determine if companies in an industry are typically able to pay off their current liabilities.

### COMPANY BENCHMARK INFORMATION

**NAICS: 623**

**Data Period**

<table>
<thead>
<tr>
<th>Company Size</th>
<th>All</th>
<th>Large</th>
<th>Medium</th>
<th>Small</th>
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</thead>
<tbody>
<tr>
<td>Size by Revenue</td>
<td>Over $50M</td>
<td>$5M - $50M</td>
<td>Under $5M</td>
<td></td>
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<tr>
<td>Company Count</td>
<td>16758</td>
<td>29</td>
<td>800</td>
<td>15929</td>
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### Income Statement

<table>
<thead>
<tr>
<th>Description</th>
<th>All</th>
<th>Large</th>
<th>Medium</th>
<th>Small</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Sales</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Gross Margin</td>
<td>92.9%</td>
<td>93.2%</td>
<td>92.6%</td>
<td>92.8%</td>
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<tr>
<td>Officer Compensation</td>
<td>2.0%</td>
<td>1.1%</td>
<td>1.6%</td>
<td>2.8%</td>
</tr>
<tr>
<td>Advertising &amp; Sales</td>
<td>0.3%</td>
<td>0.3%</td>
<td>0.3%</td>
<td>0.3%</td>
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<tr>
<td>Other Operating Expenses</td>
<td>87.5%</td>
<td>89.3%</td>
<td>87.8%</td>
<td>86.3%</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>89.8%</td>
<td>90.7%</td>
<td>89.6%</td>
<td>89.4%</td>
</tr>
<tr>
<td>Operating Income</td>
<td>3.1%</td>
<td>2.5%</td>
<td>3.0%</td>
<td>3.5%</td>
</tr>
<tr>
<td>Net Income</td>
<td>1.2%</td>
<td>0.8%</td>
<td>1.0%</td>
<td>1.4%</td>
</tr>
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</table>

### Balance Sheet

<table>
<thead>
<tr>
<th>Description</th>
<th>All</th>
<th>Large</th>
<th>Medium</th>
<th>Small</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>11.3%</td>
<td>10.9%</td>
<td>11.3%</td>
<td>11.6%</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>17.5%</td>
<td>16.6%</td>
<td>16.3%</td>
<td>18.7%</td>
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### Financial Ratios

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<tr>
<th>Ratio</th>
<th>1.30</th>
<th>1.23</th>
<th>1.21</th>
<th>1.39</th>
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<tbody>
<tr>
<td>Quick Ratio</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Ratio</td>
<td>1.58</td>
<td>1.47</td>
<td>1.46</td>
<td>1.70</td>
</tr>
<tr>
<td>Current Liabilities to Net Worth</td>
<td>51.1%</td>
<td>51.3%</td>
<td>52.6%</td>
<td>50.2%</td>
</tr>
<tr>
<td>Current Liabilities to Inventory</td>
<td>x125.32</td>
<td>x103.63</td>
<td>x176.53</td>
<td>x123.25</td>
</tr>
<tr>
<td>Total Debt to Net Worth</td>
<td>x1.27</td>
<td>x1.25</td>
<td>x1.29</td>
<td>x1.26</td>
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<tr>
<td>Fixed Assets to Net Worth</td>
<td>x0.96</td>
<td>x0.94</td>
<td>x1.02</td>
<td>x0.92</td>
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<tr>
<td>Days Accounts Receivable</td>
<td>33</td>
<td>27</td>
<td>31</td>
<td>38</td>
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<tr>
<td>Inventory Turnover</td>
<td>x76.67</td>
<td>x69.65</td>
<td>x105.34</td>
<td>x69.80</td>
</tr>
<tr>
<td>Total Assets to Sales</td>
<td>53.2%</td>
<td>45.8%</td>
<td>53.4%</td>
<td>56.9%</td>
</tr>
<tr>
<td>Working Capital to Sales</td>
<td>6.9%</td>
<td>4.9%</td>
<td>5.7%</td>
<td>8.9%</td>
</tr>
<tr>
<td>Accounts Payable to Sales</td>
<td>5.2%</td>
<td>4.7%</td>
<td>5.4%</td>
<td>5.4%</td>
</tr>
<tr>
<td>Pre-Tax Return on Sales</td>
<td>1.9%</td>
<td>1.3%</td>
<td>1.7%</td>
<td>2.3%</td>
</tr>
<tr>
<td>Pre-Tax Return on Assets</td>
<td>3.6%</td>
<td>2.9%</td>
<td>3.2%</td>
<td>4.1%</td>
</tr>
<tr>
<td>Pre-Tax Return on Net Worth</td>
<td>8.1%</td>
<td>6.6%</td>
<td>7.3%</td>
<td>9.2%</td>
</tr>
<tr>
<td>Interest Coverage</td>
<td>x2.28</td>
<td>x1.92</td>
<td>x2.03</td>
<td>x2.66</td>
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<tr>
<td>EBITDA to Sales</td>
<td>4.7%</td>
<td>4.4%</td>
<td>4.4%</td>
<td>5.0%</td>
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<tr>
<td>Capital Expenditures to Sales</td>
<td>3.1%</td>
<td>3.2%</td>
<td>3.1%</td>
<td>3.1%</td>
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Financial industry data provided by MicroBilt Corporation collected from 32 different data sources and represents financial performance of over 4.5 million privately held businesses and detailed industry financial benchmarks of companies in over 900 industries (SIC and NAICS). More data available by subscription or single report purchase at [www.microbilt.com/firstsearch](http://www.microbilt.com/firstsearch).

**ECONOMIC STATISTICS AND INFORMATION**

Annual Construction Put into Place - Census Bureau
Nursing Homes & Long-Term Care Facilities

Acquisition multiples below are calculated using at least 8 private, middle-market (valued at less than $1 billion) industry asset transactions completed between 9/2004 and 7/2013. Data updated annually. Last updated: November 2013.

<table>
<thead>
<tr>
<th>Valuation Multiple</th>
<th>Median Value</th>
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<tbody>
<tr>
<td>MVIC/Net Sales</td>
<td>0.6</td>
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<tr>
<td>MVIC/Gross Profit</td>
<td>0.7</td>
</tr>
<tr>
<td>MVIC/EBIT</td>
<td>3.8</td>
</tr>
<tr>
<td>MVIC/EBITDA</td>
<td>3.8</td>
</tr>
</tbody>
</table>

Change in Producer Prices - Bureau of Labor Statistics

Change in Consumer Prices - Bureau of Labor Statistics

VALUATION MULTIPLES

Nursing Homes & Long-Term Care Facilities

Acquisition multiples below are calculated using at least 8 private, middle-market (valued at less than $1 billion) industry asset transactions completed between 9/2004 and 7/2013. Data updated annually. Last updated: November 2013.
MVIC (Market Value of Invested Capital) = Also known as the selling price, the MVIC is the total consideration paid to the seller and includes any cash, notes and/or securities that were used as a form of payment plus any interest-bearing liabilities assumed by the buyer.

Net Sales = Annual Gross Sales, net of returns and discounts allowed, if any.

Gross Profit = Net Sales - Cost of Goods Sold

EBIT = Operating Profit

EBITDA = Operating Profit + Noncash Charges

SOURCE: Pratt's Stats™ (Portland, OR: Business Valuation Resources, LLC) To purchase more detailed information, please either visit www.BVMarketData.com or call 888-287-8258.

Industry Websites

Administration on Aging
Aging stats and news.

Alliance for Aging Research
Science news.

American Association for Long-Term Care Insurance
Web site for long-term care insurance products and issues.

American College of Health Care Administrators (ACHCA)
Event and product information, state licensure and certification, public affairs, and links.

American Health Care Association
Facts and figures for long-term care.

Consumer Consortium on Assisted Living
Industry news and reports.

LeadingAge (formerly AAHSA)
News, events, and social policy around care for the elderly.

Long-Term Facilities-based Care - Health Canada
Industry information.

Medicare Nursing Home Compare
Provides detailed information about the past performance of every Medicare and Medicaid certified nursing home in the US.

National Center for Assisted Living
State affiliates, educational resources, consumer information, news, regulatory reviews, and links.

National Investment Center for the Seniors Housing & Care Industry
Quarterly updated information on loan volume and performance, occupancy and move-in rates, construction starts and capitalization rates for the seniors housing and care industry.

National Nursing Home Survey
Detailed statistics from the National Center for Health Statistics.

Ontario Long Term Care Association
News, research, resources, and events.

Glossary of Acronyms

ADL - activities of daily living

AHCA - American Health Care Association

CCRC - continuing care retirement communities

CON - certificate of need
CMS - Centers for Medicare & Medicaid Services
LTC - long-term care
PPS - prospective payment system
RCAC - residential care apartment complexes
SNF - skilled nursing facility