

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.

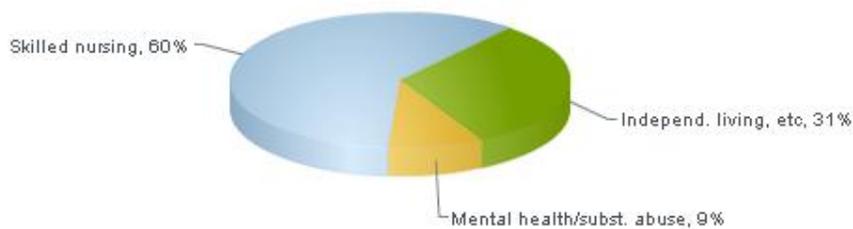
Competitive Landscape

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

depends on RNs, LPNs, and nursing aides. Salaries and wages, although typically low, usually amount to more than 50 percent of revenue.

Nursing homes need capital mainly for land purchases and building construction. Constructing or remodeling buildings for nursing home use is costly, due to special design features. Land is frequently expensive because potential customers wish to be in urban or suburban locations. Factors impacting **new facility construction** include market demographics, demand, and competition; zoning, permitting, and codes; service licenses or certifications; and financing. **Acquisition** is a common way for nursing facilities to expand without incurring the construction, staffing, and marketing costs required to occupy a new facility.

Nursing homes are **regulated** by state and local governments, and by the federal Centers for Medicare & Medicaid Services (CMS) if they accept Medicare or Medicaid payments. In most states, new nursing facilities must qualify for a **Certificate of Need (CON)** to prevent excess building. An administrator must have a state license, and additional certification is required to qualify for Medicare and Medicaid reimbursements. Reimbursement rates, record-keeping procedures, and various anti-fraud practices are required under a number of federal laws related to health care. In addition, under the federal Nursing Home Resident Protection Amendments of 1999, a nursing home must continue providing care for Medicaid patients even if it withdraws from the Medicaid program.

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.

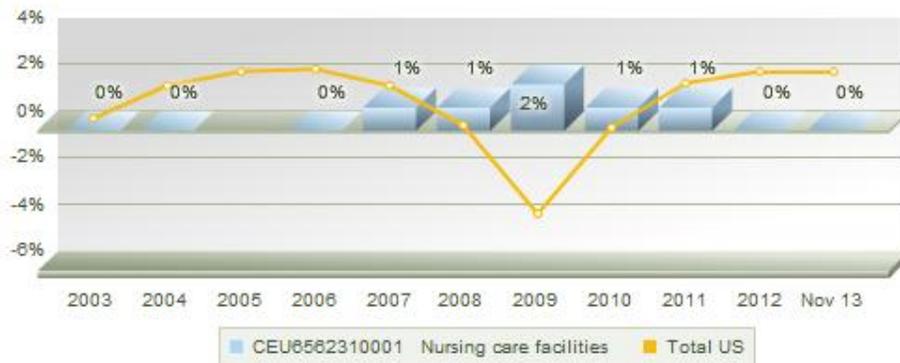
Human Resources

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.

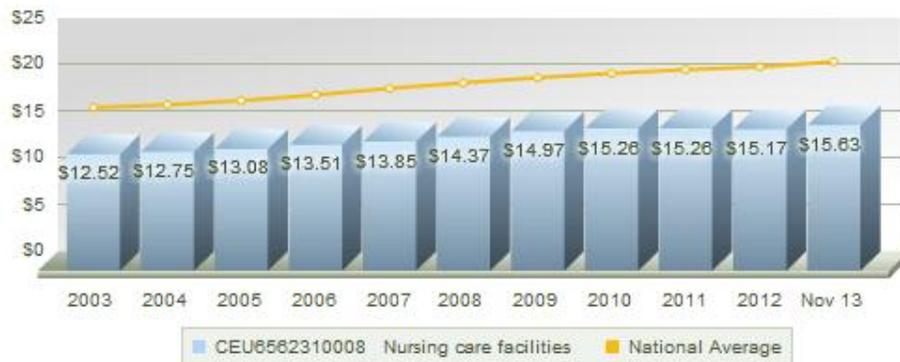
Annual personnel turnover can be quite high for both administrators and aides. High turnover results in near constant training of new workers, which is costly. Nonprofit nursing homes tend to have higher staffing levels and lower turnover than for-profit. Administrators of for-profit homes are under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

Company	Country	Sales
Kindred Healthcare, Inc.	United States	\$6,181.29M
Select Medical Holdings Corporation	United States	\$2,948.97M

Brookdale Senior Living, Inc.	United States	\$2,891.97M
Genesis HealthCare LLC	United States	\$2,137.30M
Extencicare Inc	Canada	\$2,043.73M
Orpea SA	France	\$1,888.77M
Life Care Centers of America, Inc.	United States	\$1,750.40M
Res-Care, Inc.	United States	\$1,599.11M
Emeritus Corporation	United States	\$1,568.08M
Korian	France	\$1,464.69M
Five Star Quality Care, Inc.	United States	\$1,350.88M
Sunrise Senior Living, LLC	United States	\$1,312.21M
The Evangelical Lutheran Good Samaritan Society	United States	\$1,305.80M
Medica	France	\$949.61M
TOKAI CORP.	Japan	\$922.50M
The Ensign Group, Inc.	United States	\$904.56M
Skilled Healthcare Group, Inc.	United States	\$842.27M
National HealthCare Corporation	United States	\$761.26M
Consulate Health Care, Inc.	United States	\$759.10M

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.

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.



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/firstresearch.

COMPANY BENCHMARK INFORMATION

NAICS: 623

Data Period

Last Update January 2014

Table Data Format

Mean

Company Size	All	Large	Medium	Small
Size by Revenue		Over \$50M	\$5M - \$50M	Under \$5M
Company Count	16758	29	800	15929

Income Statement

	All	Large	Medium	Small
Net Sales	100%	100%	100%	100%
Gross Margin	92.9%	93.2%	92.6%	92.8%
Officer Compensation	2.0%	1.1%	1.6%	2.8%
Advertising & Sales	0.3%	0.3%	0.3%	0.3%
Other Operating Expenses	87.5%	89.3%	87.8%	86.3%
Operating Expenses	89.8%	90.7%	89.6%	89.4%
Operating Income	3.1%	2.5%	3.0%	3.5%
Net Income	1.2%	0.8%	1.0%	1.4%

Balance Sheet

	All	Large	Medium	Small
Cash	11.3%	10.9%	11.3%	11.6%
Accounts Receivable	17.5%	16.6%	16.3%	18.7%

Inventory	0.2%	0.2%	0.1%	0.2%
Total Current Assets	35.6%	33.5%	33.6%	37.7%
Property, Plant & Equipment	42.1%	41.9%	44.6%	40.7%
Other Non-Current Assets	22.3%	24.7%	21.8%	21.5%
Total Assets	100.0%	100.0%	100.0%	100.0%
Accounts Payable	10.1%	10.5%	10.5%	9.7%
Total Current Liabilities	22.6%	22.8%	23.0%	22.2%
Total Long Term Liabilities	33.4%	32.7%	33.5%	33.6%
Net Worth	44.1%	44.5%	43.6%	44.2%

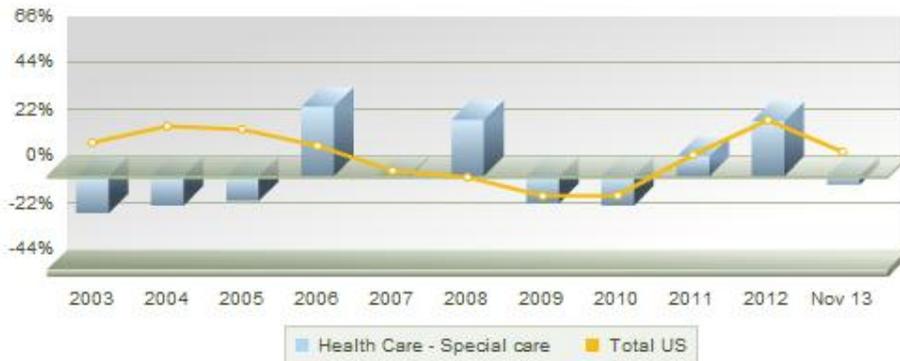
Financial Ratios

Quick Ratio	1.30	1.23	1.21	1.39
Current Ratio	1.58	1.47	1.46	1.70
Current Liabilities to Net Worth	51.1%	51.3%	52.6%	50.2%
Current Liabilities to Inventory	x125.32	x103.63	x176.53	x123.25
Total Debt to Net Worth	x1.27	x1.25	x1.29	x1.26
Fixed Assets to Net Worth	x0.96	x0.94	x1.02	x0.92
Days Accounts Receivable	33	27	31	38
Inventory Turnover	x76.67	x69.65	x105.34	x69.80
Total Assets to Sales	53.2%	45.8%	53.4%	56.9%
Working Capital to Sales	6.9%	4.9%	5.7%	8.9%
Accounts Payable to Sales	5.2%	4.7%	5.4%	5.4%
Pre-Tax Return on Sales	1.9%	1.3%	1.7%	2.3%
Pre-Tax Return on Assets	3.6%	2.9%	3.2%	4.1%
Pre-Tax Return on Net Worth	8.1%	6.6%	7.3%	9.2%
Interest Coverage	x2.28	x1.92	x2.03	x2.66
EBITDA to Sales	4.7%	4.4%	4.4%	5.0%
Capital Expenditures to Sales	3.1%	3.2%	3.1%	3.1%

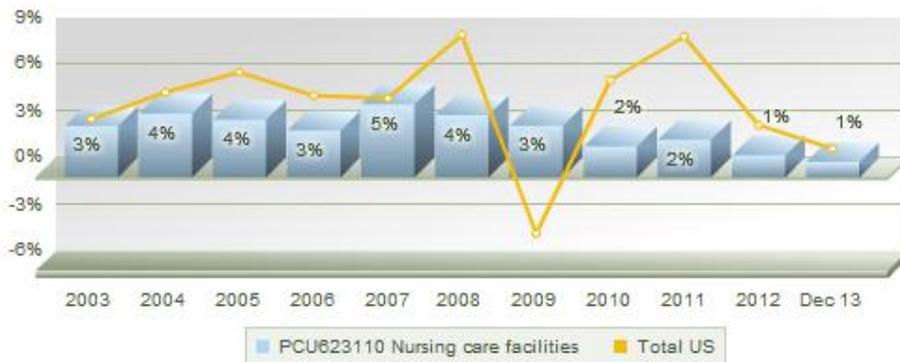
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ECONOMIC STATISTICS AND INFORMATION

Annual Construction Put into Place - Census Bureau



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.

Valuation Multiple	MVIC/Net Sales	MVIC/Gross Profit	MVIC/EBIT	MVIC/EBITDA
Median Value	0.6	0.7	3.8	3.8

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