



Business Sale Report ✓

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Care home acquisitions

Why are some some owners able to exit
at 10 x EBITDA

Others sell at 4x

And others go bust?

What are the Value Drivers? The Risks?



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in 2022, M&A declined in most industries

However care home deals were up 42% on 2021

People are seeing scope for consolidation after widespread fragmentation

**This figure highlights one of the RISK factors:
Pandemics have underscored a real vulnerability**

Fortunately confidence is back. The fact is that:

The UK population continues to age



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Decide if it is a sector for you

Running a care home is a big undertaking and will not suit everyone

Initial financial commitment is substantial. Be prepared to put down a minimum of 30%, as a combination of cash and security

The work can be emotionally and physically draining

If you don't have a genuine desire to care for the elderly and infirm, forget it

**You'll need A1 management and organisational skills.
A good working atmosphere is PARAMOUNT**



What kind of care home?



Residential homes

- Retirement homes for elderly who can no longer manage in their own homes
- Meals, accommodation and basic care
- 70% of market



Nursing homes

- Staff and facilities to cope with elderly people who need round the clock care, often with serious health problems
- More stringent regulations and standards
- 20% of market



Specialist homes

- Providing services for people with specific needs. Examples include homes for children with emotional, behavioural and learning difficulties; substance abuse
- Can command big fees, high level of expertise required
- 10% of market



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How to value a home?

If an owner or broker prices the home using a 'rule of thumb', like:

- Number of beds times £X0,000
- X times annual turnover

IGNORE IT, THIS IS OUTDATED AND WRONG

There is only one method that can be relied on; this is used by seasoned buyers, private equity analysts....



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Use the Earnings Multiple method

Apply a multiple to the Underlying EBITDA

Very generally the multiples are 5x to 10x

We will come back to the multiples later

It is important to understand that the difference between published EBITDA and the Underlying EBITDA of the business will have a material impact on its value



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What items need to be adjusted for?

Here are a few examples:

- Profit from new beds**
- One-off professional fees**
- Directors salaries. This can go both ways. Add back if they will no longer be needed under new ownership. Subtract if kept artificially low and directors have carried out considerable work**



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VALUE DRIVERS FOR EARNINGS MULTIPLES

Quality - i.e. CQC ratings

Size - #beds: home or group

Occupancy levels

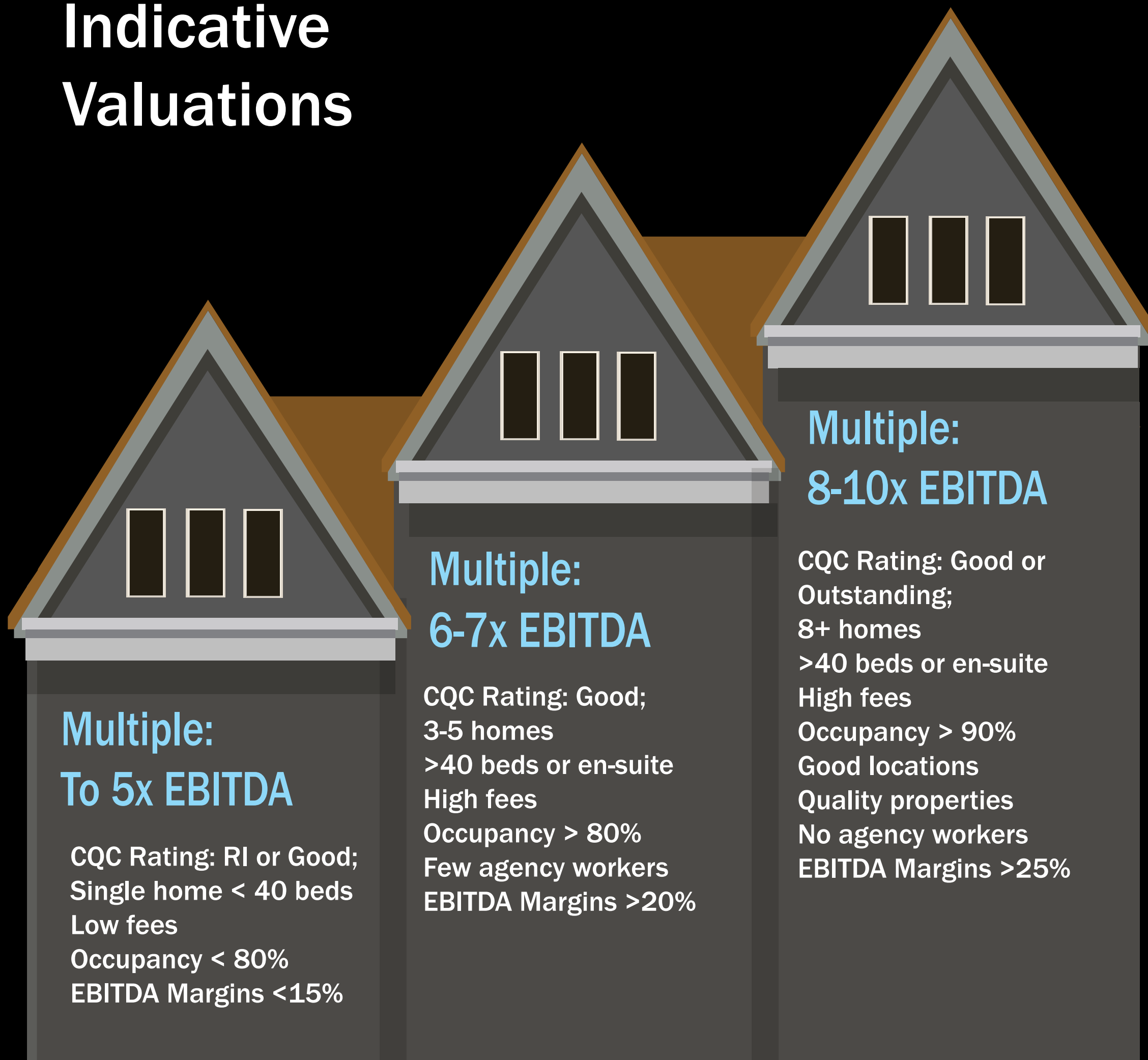
Staffing levels (agency?)

Fees (high/low; private; NHS)

Property (date, size, location)



Indicative Valuations





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Raising the finance

Banks used to finance 80% and arrange within days. Now 60-70% and it will take weeks, To maximise chance of success:

- Be fully prepared, with published and management accounts and your own cash flow forecasts in hand**
- Get experience. Applicants with good track record favoured**
- The care home should have good inspection reports, financials and LTV**



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**Factor in acquisition & financing costs
Here are just some that may be applicable:**

- Down-payment * business valuation fee**
- * mortgage/loan arrangement fee * interest payments * mortgage reference letter**
- * specialist broker consulting fees**
- * stamp duty * solicitor's fees**
- * annual fees to the QCC**



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RISKS

- ◆ Sector known for staff shortages
- ◆ Changing regs and compliance rules
- ◆ Pandemics
- ◆ Post-deal management time spent on logistics & financing often detrimental
- ◆ Govt and local authorities struggling to keep up funding for increasing numbers
- ◆ Growing competition from other forms of care i.e. sheltered housing, home visits
- ◆ Heavily reliant on reputations. Fallout from negative incidents like abuse, neglect, poor inspections can be damaging



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✓ REWARDS

- ◆ Steady income
- ◆ A successful home can generate 25- 35% EBITDA
- ◆ Increased demand as population ages
- ◆ Potential for property value to appreciate
- ◆ High satisfaction from running a positive community impact business
- ◆ Making value driver improvements (i.e. increasing occupancy rate and moving the rating from 'requires improvement' to 'good') can have a dramatic effect on business worth



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For more detail on these slides, plus details of regulatory requirements in England, Scotland, Wales and Northern Ireland, get our free report:

‘Guide to Buying a Care Home in the UK’
business-sale.com/a-guide-to-buying-a-care-home

Containing details of industry associations, publications and regulators

View UK care homes for sale at
<https://www.business-sale.com/care-homes-for-sale>

