

# Tips For Maximizing the Value of Your Assisted Living Residence

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By Sonja Wood, Certified Business Intermediary (CBI) ~ Published in the Colorado Assisted Living Association Newsletter August 2009

Since more than half (300+) of the licensed Assisted Living Residences (ALR's) in the state of Colorado have less than 20 beds, it can safely be said that many of these facilities are owned and operated by those who have some level of personal involvement in the operation of their business. Years of my personal research and experience have indicated that many entrepreneurs are so busy getting their business to a point that it becomes a profitable smooth running operation, that they give little thought to how they will exit the business and realize returns in their investment of time, money & resources. As with most businesses, there comes a point when the founder may want to find a way to exit the business they developed. As an owner, you most likely realize that there will come a day (for any number of reasons) when you decide that you may want to (or need to) exit or sell your business. If you are aware of the important business issues, which are relevant to a potential Buyer and stay in a position of always being prepared, you may be able to exit more smoothly and quickly should you face the need to do so.

Whether you are considering selling your business soon or not, there are things that should be done, well in advance, in order to maximize the value of the business (if and when you do decide to sell).

You need to prepare (even if it is still several months or years until you plan on selling). Remember the business market is unforgiving...statistically only 1 in 4 businesses that are listed for sale end in a successful closing. The number one reason most businesses won't sell or sell at a disappointing low price has nothing to do with the quality or potential of the business.

## What is the biggest mistake owners make when they try to sell their businesses?

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It's quite simple: they fail to prepare their business so it has the maximum perceived value to a potential Buyer.

## HERE ARE A FEW TIPS FOR KEEPING YOUR COMPANY IN A SELLABLE & MORE VALUABLE STATE:

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### 1. Keep Good Records and Financial Statements

One of the most important items to stay on top of (to keep your business in a sellable condition) is to maintain accurate and current financial statements. These items will be required before a business goes on the market to be sold and may also be useful should an owner need to acquire additional capital during their ownership of the business.

The records you will need are: 3 years of federal tax returns for the business being sold, the last three years (as well as year-to-date) financials (profit & loss statement, balance sheet), the last three years of monthly bank statements, list of all furniture, fixtures & equipment being sold with the business, etc.

Not having these items properly prepared and available reduces the chances that you will be able to successfully sell your business. For multiple reasons, it is best to stay up-to-date with these items.

## **2. Preparation of Financial Statements for the Sales Process: Recasting your Financials**

Many business owners operate a successful business, which, on paper, shows very little profit. This is obviously beneficial for tax purposes but creates a challenge when trying to substantiate business value for a Buyer. Recasting financial statements (in particular, profit and loss statements and balance sheets) helps to maximize company earnings while minimizing liability. The recasting process helps find and support increased earnings in a business. By making adjustments for expenses that may not necessarily be business expenses to a new owner (such as owner's salary, health insurance, automobile expense), the business will be shown in the most positive and accurate light. This can be especially useful when dealing with a Buyer who would operate the business himself. Again, keeping accurate records can help ease you through this process.

## **3. Determining a value.**

One of the most important steps in selling a business is determining the actual worth. There are many formulas for valuing a business. Some factors that Buyers will consider in making a purchase are: the net profits (recasted), gross revenues, historical occupancy rates, census (private pay & Medicaid mix) and other factors. Regardless of all the items of consideration, the sale price is most heavily based on profits. The sale price is almost always a multiple of the business' profit. Multiples vary from industry to industry and business to business.

Keep in mind, there are different terms for the "bottom line" number which is the key factor in valuing a business. Terms such as profit, cash flow, & net operating income (NOI) may include or exclude different items such as amortization, depreciation, taxes and debt service. It is important that the terms being utilized are clearly defined before using the "bottom line" number for comparison purposes.

Since the most relevant factors in establishing value on an Assisted Living Facility are historical and consistent cash flow and solid occupancy rates, it is vital that your facility stays as high as possible in both areas in relation to other “like” businesses.

## **4. Always Stay Prepared for Due Diligence**

When a Buyer moves through the contract process, they will ideally complete thorough Due Diligence in evaluating and the solidifying a purchase contract. It is during this phase that items are discovered that would cause a Buyer to back out of a purchase contract.

If you keep these items in order, there will be less disruption in your business when you enter the Due Diligence stage. Being prepared can also be very helpful in maintaining and keeping discretion during the contract period.

Items which may be asked for during Due Diligence:

### **Personnel Information**

Potential Buyers will want to know as much as they can about your current employees. Typically, they will want to review the skill sets and experience of individual, key employees, as well as payroll commitments, benefits packages and other HR material.

### **Assets**

Asset values represent a significant part of the asking price for a business. Buyers will not only want to personally inspect the business' property and equipment, but also understand the rationale behind the valuation process. To prepare for this, you may need to conduct a professional appraisal of the business' major assets including real estate, equipment, and inventory. Another important issue with business assets is whether there are any types of liens present on them. During Due Diligence, your business assets will be investigated for any type of attached liens, so be sure to be prepared to address those issues should any types of liens be present.

### **Finances**

As noted previously, prepared and accurate financial information will be required. A comprehensive financial review is an integral component of Due Diligence. Like it or not, you need to be ready to open your books to potential Buyers. Again, make sure you have accurate financial statements. Since most Buyers will also want to talk about service pricing (for ALR's this would be resident rates), you should also be prepared to talk about your bed rates & level of care policies and where they fall in the marketplace.

### **Operations**

The new owner may or may not approach operations the same way you do. But either way, they will need to understand current processes and procedures to determine the business' viability under their ownership. If you don't currently have a comprehensive Operations Manual available that would allow someone to walk in and gain a quick understanding of the nuts and bolts of what it take to run your company, i.e., resident care, management and marketing systems, staffing, vendor relationships, inventory management, – everything that relates to the day-to-

day operation of your company, there are organizational experts that can work with you to fairly quickly put that into place. Understanding of these items are all fair game in the Due Diligence process, the more comprehensive you are about the systems you have in place for operating your business, the more valuable it will be to a Buyer. After all, if it's all in your head and you are not there anymore, what path will the business continue down? Preparation in advance can help you move the value from YOU and what you do in the business into what YOU created the business to do on its' own.

### **Marketing & Referral Resources**

This is very important to a Buyer, especially in a smaller Assisted Living Residence. Keeping a facility well marketed (including numerous placement resources), will reassure a Buyer of the facilities' ability to re-fill an open bed, should an existing resident vacate. Many times in smaller businesses, the owner is the nucleus of the business and when the owner leaves, the business can deteriorate quickly. This is especially relevant in a facility that is predominately private pay. A new owner (depending on experience) may be much more susceptible to difficulties maintaining good occupancy. By creating a strong management, marketing, and resource base for the business (that is not necessarily tied to the owner), the business will have a better opportunity to stand on it's own when and if the owner leaves. This ultimately will be reflected in the value and the selling price of the business. This is an area that requires planning and preparation. If an ALR owner is considering selling and is in the position of "being the business" there are steps that can be taken (over time) to transfer more value from them personally over to the business that they may, one day, want to sell.

### **Licensing**

The survey history will most likely be evaluated by a Buyer and may be used as a gauge of reputation and business quality. Keeping your facility deficiency-free not only will reflect well with the CDPHE but it may also affect your ability to maintain high occupancy and revenues which may ultimately lead to a higher selling price on the business. Another item which will be evaluated during the Due Diligence process is ability for the facility to receive current municipality approvals which will be required for the new owners' license. If there are issues, which you know will need to be addressed in order to obtain a New or Change of Ownership License (for example, the requirement of fire sprinklers), it is wise to consider addressing those issues prior to putting the business up for sale. Not only would having a facility current with regulatory requirements add to the value of the business, but it may also have a positive effect on revenue. In the instance of fire sprinklers, having them is a safety feature which families and residents may consider of high value, thereby possibly increasing occupancy and therefore revenue. Conversely, having a facility which could not be re-licensed without certain changes (i.e. fire sprinklers) would have a negative impact on value.

The bottom line is that Due Diligence can be a far-ranging process of discovery for Buyers. The best way to prepare for Due Diligence is to put yourself in the Buyer's shoes and prepare to disclose all of the information you would need to review if you were buying your business.

In summary, there are many issues, in addition to the ones listed, that you should consider when you are planning for the future of your business. Though you may not currently have

interest in selling your business, it is important to consider and prepare for some of the relevant issues involved in the selling process and to start developing your exit strategy, so that when the time comes, you are prepared and in the position to receive the maximum value possible.

As a trained Administrator (and also past Vice President with Colorado Assisted Living Association CALA) and a Certified Business Intermediary (Business Broker) experienced in the sale of Assisted Living Residences, Sonja Wood provides the knowledge and resources necessary to aid an ALR owner in the process of preparing and selling their business. Sonja's team, Commercial Investment Solutions looks forward to the opportunity to partner with those in the Assisted Living Community who may preparing their Business for Sale, or may have a Real Estate need -Residential, Commercial or Business related.