A guide to buying and selling a care home

Buying or selling a care home: who will be involved & what are their roles?

There are several stages to buying and selling a care home that involve a number of different parties. This guide helps to set out each stage of the transaction process and offers some top tips for protecting your investment.

Our five part guide is aimed at the participants in a care home sale or purchase to give them the heads up on what to expect. The transactions often have many factors to consider from commercial, regulatory, legal and due diligence perspectives. This guide helps to give you a clear idea from the outset of the care home sale process, giving you the peace of mind that your business will be protected from any unexpected issues.

Explore the various elements of the transaction from different perspectives, including the following:

- Who will be involved and what their roles are
- The stages of a transaction
- Enhancing the value of your business – tips for sellers
- Protecting your investments – a buyers guide
- Care homes in financial distress and safeguarding your business

We hope that this guide is useful and always welcome questions and enquiries from existing and future clients. This is an evolving guide and much of the content is derived from working on transactions, and we are open to suggestions to further enhance its usefulness.

If you would like any further advice on buying or selling care homes please get in touch with Dominic Travers or Alexander Wood directly.

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Buying or selling a care home: who will be involved & what are their roles?

The sale and purchase of a care home involves a number of different parties, each of which has a different role to play. For example, if external funding is required, then it won't just be the seller and buyer involved.

These parties will also come into the process at varying stages, depending on the complexity of the sale and if any issues arise throughout.

It's worth bearing in mind the important part each of these parties play, as this will ensure the whole process runs smoothly from start to finish.

The seller

The owner of a care home business will usually be a company, but may be one or more individuals, or a partnership. If individuals own assets used by the business (such as a property), and they own the company, it can be advantageous to transfer the assets into the company before it is sold.

The buyer

As with the seller, the buyer of a care home is typically a company, and this is even more common when additional funding from a bank or other investors is required.

Private equity

For larger transactions or groups of care homes, private equity may invest in a business alongside existing shareholders. This is with a view to growing the turnover and profitability, and an exit within three to seven years.

The agent and broker

Early in the process, an agent will often be instructed by a seller to assist them in the sale process, and they might approach more than one agent to get a comparison. The agent will give the business an initial appraisal and indicate a sale price. Agents in the care home sector will have a list of potential buyers on their contact database and have the ability to make introductions. Good agents will seek to get the best price for the seller, which is not necessarily the highest price quoted. Larger agents may offer a broking service to assist sellers with financing.

Funding

Unless a buyer can fund a transaction from its balance sheet, some borrowing will be required. Lenders will have a loan to value ratio on which they are prepared to lend, with the buyer funding the balance. A lender will undertake valuation, financial and property due diligence. It will stress test the buyer and its business plan to minimise its risk.

Directors and shareholders in a buyer may be asked for personal guarantees to support the buyer's borrowing, with a charge over assets such as a property. Buyers with a track record, robust business plan and credit history are a more compelling prospect for a lender. In private equity deals, a lender will provide loans alongside the equity (money invested for shares) by the private equity investor.

Professional advisers: accountants

Sellers are advised to discuss a proposed sale with their accountants well before an anticipated sale date. There may be steps that can be taken which will reduce the tax burden on sale. The buyers' accountants will be involved in the due diligence process scrutinising the accounts, systems and other financial information relating to the business.

Professional advisers: solicitors

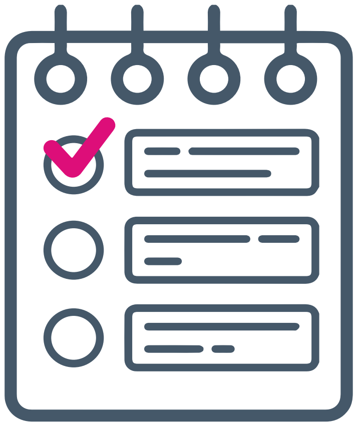
Separate solicitors will act for the seller and buyer. Solicitors will assemble a deal team comprising a corporate lawyer who will deal with the transaction documents, together with property and employment specialists. They are usually involved in heads of terms (setting out deal terms and confidentiality undertakings). They will certainly be involved in the legal due diligence process, either managing the provision of information on behalf of the seller, or reviewing it for the buyer. The solicitors will draft and negotiate the sale documentation and, in conjunction with the agent, manage the various parties to enable the transaction to complete. A lender will have its own solicitor.

The regulator: CQC

The Care Quality Commission (CQC) is the government agency responsible for governance of quality in adult social care. By law, all care homes in England are responsible for making sure that the care they provide meets national standards of quality and safety. A care home not registered with the CQC is not allowed to operate, and failure to do so is an offence with an unlimited fine and/or imprisonment.

The CQC has various powers to regulate care home services. There is legislation, such as the Health and Social Care Act 2008 (Regulated Activities) Regulations 2014 and the Care Quality Commission (Registration) Regulations 2009. Additionally, CQC has drawn up a number of its own regulations with which care home operators must comply.

The CQC's primary role in relation to adult social care is to ensure that services provide people with safe, effective, compassionate and high-quality care that is responsive to the needs of residents. Detailed CQC regulations set out minimum requirements for care home owners.



Staff must be 'fit and proper persons', and premises must be clean, safe and suitable for purpose. Residents must be treated with dignity and respect. There must be processes and procedures for safeguarding residents from abuse and improper treatment.

Care homes must also cater for residents' emotional wellbeing, such as through the provision of social events and day trips, and provide the services of hairdressers and dentists.

Care homes are inspected by the CQC on a regular basis and inspection reports are made public on the CQC's website. If a care home is not meeting the required standards, it will be asked to address the issues, may be fined or given a warning. The ultimate sanction is that the CQC may prevent the care home accepting new residents or closing it down.

The CQC registration process may take several months to complete. Note that sometimes a seller will agree to continue as registered provider until the buyer is registered with the CQC, subject to being indemnified by the buyer.

There are a number of different stages involved in the process of selling or purchasing a care home, and each stage links to the next one.
For more information on buying and selling a care home, you can download our full guide to care home sales and purchases on our website: coffinmew.co.uk/carehomeguide