

Adult Family Homes

Industry Snapshot

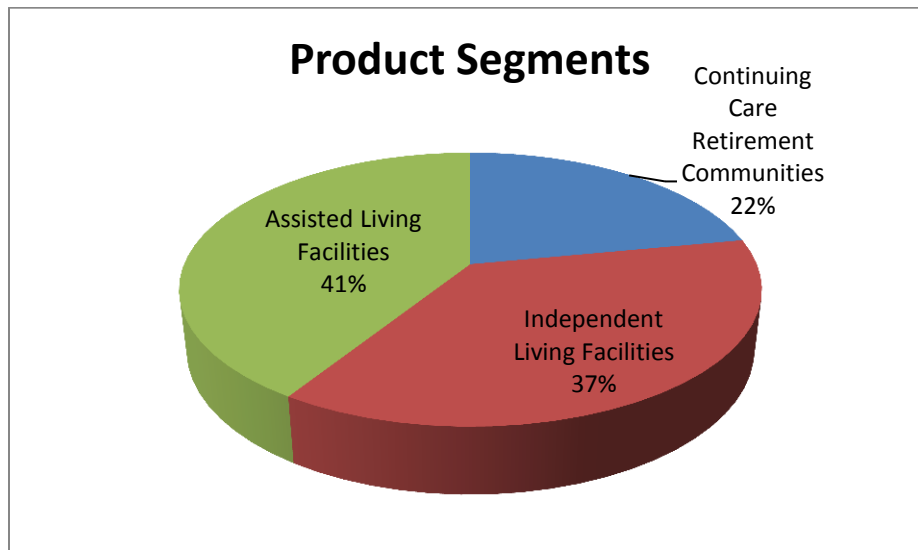
November 2010

This industry snapshot will focus on adult living facilities that do not have nursing care as a primary activity. This industry snapshot will primarily reference Homes for the Elderly, defined as:¹

This U.S. industry comprises establishments primarily engaged in providing residential and personal care services (i.e., without on-site nursing care facilities) for (1) the elderly or other persons who are unable to fully care for themselves and/or (2) the elderly or other persons who do not desire to live independently. The care typically includes room, board, supervision, and assistance in daily living, such as housekeeping services.

Industry Segments

Service segments of the adult living facilities industry can be divided into independent living, assisted living, and continuing care retirement communities. None of these facilities focus primarily on skilled nursing. Of the three segments, assisted living facilities and independent living facilities are often classified together under the term “home for the elderly”; while continuing care retirement communities stand independently. The US Census Bureau attributes 42.0% of industry revenue to homes for the elderly and 58.0% of industry revenue to continuing care retirement communities.²



¹ “North American Industry Classification System,” U.S. Census Bureau, <http://www.census.gov> (November 16, 2010).

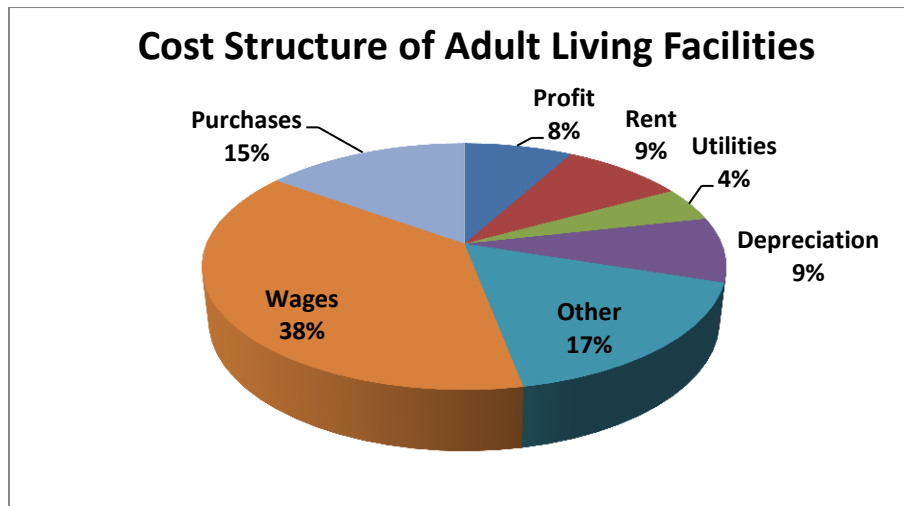
² IBISWorld Pty Ltd., “62331 Retirement & Assisted Living Communities.” New York: IBISWorld. October 2010. <http://www.ibisworld.com>

Industry Data

The following table shows some of the key industry statistics for the year 2010. Overall, revenue, employment, average wages, and revenue per employee are expected to increase over the next five years. Establishments are also expected to increase over the next five years, except for a short period of negative growth in 2013.³

2010 Industry Statistics	
Revenue (\$m)	\$37,889,800,000
Establishments	20,278
Employment	659,887
Average Wage	\$22,594.32
Revenue per Employee	\$57,420

The chart below shows the cost structure of this industry. Overall, there is typically a profit margin of 2.0% to 10.0%, which varies predominately with the type of resident conditions and the changing needs of the resident.⁴



Success Factors⁵

- Superior financial management and debt management**
 Operating expenses must be managed to ensure that each additional resident generates maximum profit for the company. Also, mortgage and lease obligations increase risk, because defaults on debts secured by properties may result in foreclosure.

³ IBISWorld Pty Ltd., "62331 Retirement & Assisted Living Communities." New York: IBISWorld. October 2010.
<http://www.ibisworld.com>

⁴ Ibid

⁵ Ibid

- **Being familiar with local tastes and preferences**
Businesses must meet the residential care needs of the local population in each region. Companies must adapt their services and accommodations to attract nearby residents by making them feel at home.
- **Ability to attract local support/patronage**
Many residents prefer to move to facilities that are located in their current cities, in order to stay in proximity to family and friends.
- **Carrying out all necessary maintenance to keep facilities in good condition**
Residential facilities need to be maintained to an acceptable standard and comply with regulations in order to prevent injuries and maintain a satisfied customer base.
- **Realize operating efficiencies**
Larger businesses can realize cost and operating efficiencies in the procurement of goods and services. Scale also allows companies to achieve increased efficiencies with respect to various employee and executive functions.
- **Ability to provide a broad spectrum of care**
Continuing care retirement communities are growing in popularity; these types of facilities enable operators to meet a range of customers' needs. More and more individuals are choosing to move to facilities where they can stay for the remainder of their lives.
- **Ability to obtain regulatory approvals**
Delays in obtaining required regulatory approvals could impede a company's ability to expand to additional communities, which could negatively impact operations and cash flows.

Risks and Challenges⁶

- **Healthcare Reform**
The Patient Protection and Affordable Care Act of 2010 will significantly affect government funding for nursing homes and assisted living facilities. The new law cuts more than \$500 billion in Medicare and Medicaid funding for nursing homes, hospitals, and other providers over the next 10 years. Facilities may have to curtail the number of Medicare and Medicaid patients they care for as well as increase prices for private payers.
- **Liability for Resident Care**
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

⁶ First Research, Inc. 2007, "Nursing Homes and Assisted Living." Austin, TX: First Research. October 18, 2010.
<http://www.firstresearch.com>

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.

- **High Risk Workplace**

The nursing and residential care industry's annual injury and illness rate is 8 per 100 workers, 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.

Trends

- **More Alzheimer's Care⁷**

The number of assisted living facilities and nursing homes with dedicated Alzheimer's units continues to increase rapidly. Alzheimer's, which afflicts more than five million in the US and is the seventh leading cause of death, is expected to afflict an estimated 16 million by 2050. Patients with advanced Alzheimer's require extensive nursing resources and supervision.

- **Aging Demographics⁸**

Demographic trends have underscored the growing demand for senior housing. Between 2006 and 2010, demographic trends supported strong demand from the population of 55- to 64-year-olds and the 85+ year old population. The population aged 85 and older is expected to grow at approximately three times the national rate through 2010, a result that is largely attributable to advances in medical care and increasing longevity.

- **Increased Regulation Costs⁹**

While retirement and assisted living communities have performed well during the past five years, significant regulation and policy changes have caused costs to rise. This trend has pressured profit margins, but most companies have been able to maintain profitability through higher rent and entrance fees.

Consumer Demographics

Demographics play a significant role in the consumer profile of the adult living facilities industry. Consumers tend to be elderly and many do not have children. The average age of those living in assisted living facilities is 87 years old. Furthermore, approximately 75% of residents in industry

⁷ First Research, Inc. 2007, "Nursing Homes and Assisted Living." Austin, TX: First Research. October 18, 2010.

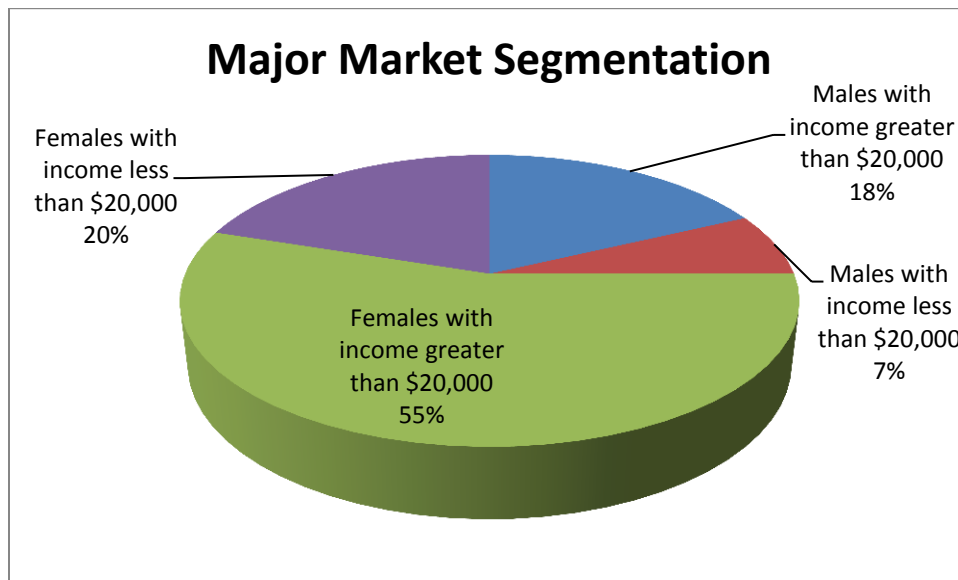
<http://www.firstresearch.com>

⁸ IBISWorld Pty Ltd., "62331 Retirement & Assisted Living Communities." New York: IBISWorld. October 2010.

<http://www.ibisworld.com>

⁹ Ibid

facilities are females. The high number of female residents correlates with the elderly U.S. population; as 70% of the population 85 and over is female.¹⁰



Financial Information

The tables below show financial information for adult care facilities operating as Homes for the Elderly.¹¹

ASSETS	0-500M	500M-2MM	2-10MM	10-50MM	All
Cash & Equivalents	33.8	18.3	8.6	11.5	15.1
Trade Receivables - (net)	12.6	6.7	4.5	5.1	6.4
Inventory	.1	.3	.2	.1	.2
All Other Current Assets	7.1	2.6	2.7	1.6	3.1
Total Current Assets	53.6	27.9	16.0	18.3	24.7
Fixed Assets (net)	30.9	56.6	70.0	65.2	59.3
Intangibles (net)	4.6	1.0	2.5	3.0	2.7
All Other Non-Current Assets	10.9	14.4	11.6	13.5	13.3
Total Assets	100.0	100.0	100.0	100.0	100.0

LIABILITIES	0-500M	500M-2MM	2-10MM	10-50MM	All
Notes Payable-Short Term	17.1	1.2	.4	3.0	4.0
Cur. Mat.-L/T/D	2.7	3.1	7.4	1.1	4.1

¹⁰ IBISWorld Pty Ltd., "62331 Retirement & Assisted Living Communities." New York: IBISWorld. October 2010. <http://www.ibisworld.com>

¹¹ eStatement Studies, 623312: Homes for the Elderly, (accessed November 17, 2010). <http://www.statementstudies.org>
Center for Economic Vitality

Trade Payables	21.0	8.1	4.2	2.6	7.3
Income Taxes Payable	.1	.0	.0	.0	.0
All Other Current Liabilities	45.4	35.0	7.5	8.4	18.6
Total Current Liabilities	86.4	47.5	19.4	15.1	34.0
Long Term Debt	15.9	40.6	70.3	52.6	51.6
Deferred Taxes	.0	.0	.0	.0	.0
All Other Non-Current Liabilities	5.0	1.8	9.2	15.0	9.0
Net Worth	-7.3	10.1	1.0	17.2	5.4
Total Liabilities & Net Worth	100.0	100.0	100.0	100.0	100.0

INCOME DATA	0-500M	500M-2MM	2-10MM	10-50MM	All
Net Sales	100.0	100.0	100.0	100.0	100.0
Gross Profit	100.0	100.0	100.0	100.0	100.0
Operating Expenses	91.2	85.2	81.3	93.8	87.3
Operating Profit	8.8	14.8	18.7	6.2	12.7
All Other Expenses (net)	3.6	9.2	14.2	9.1	9.9
Profit Before Taxes	5.2	5.6	4.5	-2.9	2.8

RATIOS	0-500M	500M-2MM	2-10MM	10-50MM	All
Current Ratio	1.1	.6	.9	1.1	1.0
Quick Ratio	.8	.5	.6	1.1	.8
Debt to Worth	46.3	3.0	63.2	4.5	12.4
Return on Equity	116	18	8.6	7.2	11.7
Return on Assets	20.0	3.7	2.8	1.0	2.2
Sales to Assets	6.4	1.2	.5	.4	.7
Net Sales (\$)	38357M	71277M	248367M	1034492M	2004492M
Total Assets (\$)	6732M	35519M	311246M	1010337M	2843097M