

Welcome to our Spring 2023 Newsletter bringing you up to date news reflecting the care home sector including the latest comments from the Broker Team at Chandler & Co. who continue to succeed in successfully sourcing lending for a range of care operators, from new entrants to growth portfolio care businesses.

Existing multi-site owners, new entrants, and investors continue to be inspired by the care home sector, a needs-based service continuously evolving to meet the challenges of an ageing, more complex demographic alongside regulatory changes across the UK.

In this issue of our newsletter, we cover -

[>> Practical steps when buying a Care Home by Mark Hickman, partner at Chandler & Co.](#)



[>> Financial due diligence in Mergers and Acquisitions by Rachel Anstee, partner at Hazlewoods](#)



[>> The current legal challenges when acquiring a Care Home by Hazel Phillips, partner at RWK Goodman](#)



[>> What the Chandler & Co. brokers say about sourcing funding](#)

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Care Sector Mortgage Brokers

To set the scene for this care sector newsletter Mark Hickman of Chandler & Co considers the care home acquisition journey covering off many of the questions that the Broker team get asked about ...



PRACTICAL STEPS WHEN BUYING A CARE HOME



Having supported many care home purchasers over the years the acquisition journey continues to evolve alongside regulation and the complexities of due diligence in support of a finance application.

PREPARATION

As with all business preparation is key alongside [a well-prepared business plan](#).

When buying a care home consider all the options:

- If a first-time buyer lenders will want to explore your motivation for venturing into the care home sector alongside related experience
- Consider the regulated activity at the core of the business proposition, with examples being:
 - Nursing
 - Personal care
 - Residential dementia
 - Supported living
 - Extra care
- Ensure that your CV (with no gaps) stacks up alongside any additional investors/shareholders
- Complete an assessment of your asset and liabilities, income and expenditure ensuring all are aligned for the business venture

- Whether a first-time buyer or a multi site existing group seeking to expand, consider how the additional care home sits within your expectations or future plans:
 - The size and number of beds in a care home are important, with lenders continuously assessing their lending policy criteria
 - At the time of going to print care homes with 30 or more beds tend to be favoured by many lenders, with supported living housing smaller units
 - Smaller units may suit different services; older properties often needing investment to adapt to current trends may come to the market as vacant possession or alternative use
 - On the other hand, smaller units within a manageable distance continue to be bought by small group operators with combined operational synergies and potential boutique appeal
 - Location remains key

CARE HOME PROPERTY SEARCH

Care home searches are usually via an online search, such as [Buyacarehome](#), and/or relationships built up with care home property agents and finance brokers.

Once you have found a potential care home, the next step will be to carry out some initial market research:

- Look at all publicly available information
- If a company, review financial and nonfinancial history at Companies House
- If the care home is listed as a confidential sale, you will most likely need to sign a Non-Disclosure Agreement when asking for further details about the property and current business
- Collate initial due diligence about the care home
- Review the website and social media
- Google for news items
- Location
- Is the care home easily accessible
- Is the care home capable of being staffed locally
- Gauge the reputation and community involvement
- Download CQC/regulator reports
- Are local GP practices or clinics nearby
- Where are the nearest hospitals, both NHS and private



Chandler & Co are founder members of the [Buyacarehome Group](#)

[buyacarehome.com](#)

[ownacarehome.com](#)

UK's one stop network for care home operators



MARKET RESEARCH

Widen your market research and consider the care home's target audience and needs.

Look at the care homes in the local areas to consider whether there is continued demand for care home supply.

Review CQC/regulator reports of competitor care homes in addition to publicly available financials and non financials to assess occupancy trends and recovery post pandemic.

Consider local demand for staff recruitment and retention, including locality of schools and colleges.

Review the local housing, obtain details of average housing costs and wages.

Consider whether the care home is accessible by public transport, potential for bike to work schemes, within walking distance of the local community.

Does the care home currently offer electric care charging points?

Consider seeking additional expertise for care sector benchmarking.

POTENTIAL ROLE

Most care home acquisitions fall into investor, hands on and/or run with management.

Before acquiring and/or subsequently growing your care home business consider the skill set required to match the vision.

Some care home acquisitions appoint an external consultant from the start. This may be for a set period which provides a comfort factor for credit sanctions if the purchaser requires initial additional support.

Good practice once the care home has been acquired entails regular mock inspections which assesses best practice for the service including continuous improvement recommendations,

with the role either insourced or outsourced to an external consultant. Whatever your role within the care home, when considering the purchase, assess the **added value** that you can bring. This could be a particular skill set and/or planning sustainability of the property and the care home business. It may be within your plans, particularly if the care home business is purchased with planning permission, to extend the care home further and/or refurbish it with greener technology and innovative Infection Prevention Controls in mind.

Against this background you will need to consider if the care home acquisition is right for you set against the viability of current and future fee earning potential.

FINANCIAL DUE DILLIGENCE

Decide who will be carrying out the financial due diligence, whether it's yourself, your internal finance team or an external financial professional. Rachael Anstee, Partner Hazlewoods, explores this subject later in this newsletter.

THE PURCHASE OFFER

Once you have considered all the above now is the time to make the initial OFFER to acquire the care home which may be subject to future negotiation.

The next stage is the viewing, which in a care home setting is usually part of a discrete and confidential process, since the existing staff may not be aware that the selling process has commenced.

As part of the property due diligence, you will need to consider its location, age, whether it is unfettered, if it is listed, whether it is freehold or leasehold, if there is planning permission, its suitability in a post Covid19 world, whether the asset could cope with future outbreaks, the property environment from a staff and resident wellbeing perspective, whether there are any outbuildings such as log cabins or pods, GP accessibility and location to the nearest hospital.

If the existing care home property has surplus land obtain confirmation regarding current planning and whether it could be a location for future retirement living units or, for example, an independent residential dementia wing. Considering local demographics and future proofing the business.

Obtain detailed financial information, including at least three years historical financial statements and current, up to date, management information. You will also need to obtain current residency and fee details together with the funding source (privately funded or local authority).

Benchmarking the financial information will also enable you to assess where the care home sits in the local community, with reputation being a key element.

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PURCHASE OFFER ACCEPTED

Once the purchase offer has been accepted, your mortgage support, for example a broker, will go out to the wider lending market to obtain finance support. Most care home purchases require some element of lending to source the gap funding between the purchase cost and the Loan To Value (LTV).

It is at this stage that you should confirm the structure of the proposed purchase since the lender will need to know the entity that they are lending to, for example are you purchasing the care home via a share purchase, is it an asset purchase, or both? Further professional due diligence will take the business structure into consideration.

Once you have received a loan offer on indicative terms, the lender will then provide you with their panel of valuers for you to engage with as part of the acquisition process.

POST VALUATION

Once a valuation has been submitted to the lender the bank/lending source will confirm their loan offer.

It is at this stage that you decide whether to commit to the purchase with your mortgage broker, as an example, being engaged to take the application to the next level with legal and accountants being appointed by the purchaser of the care home. The care home vendor will have their own professional support.

The ensuing period is where the professional support on both the buyer and seller side liaise with the broker support being a key part of the communication process and linking all parties together, including the selling agent of the care home.

EXCHANGE AND COMPLETION

Upon completion, the loan will be drawn down and you will have acquired your care home.



POST COMPLETION

There will be a post completion process to follow with your professional support in addition to you taking your next steps within the business which can include the following:

- **Meet with your new team members**
- **Take feedback**
- **Review existing practices taking the team along with you**
- **Consider as a team what is good and what areas could be improved**
- **Create an ideas forum**
- **Consider appointing an external consultant to carry out mock inspections**
- **Consider the digital processes within the business**
- **Review the supply chain**
 - **Consider ESG factors as part of a sustainable greener business**
- **Work with the staff to understand the existing culture and where improvements could be made**
- **Finance, it is usually recommended that your financial records are digitally based for operational reporting, lender covenant reporting and business sustainability. Future changes to HMRC reporting will require a digital form of bookkeeping.**

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Rachael Anstee, Partner at Hazlewoods talks about Financial Due Diligence in Mergers and Acquisitions

When acquiring another business, a buyer will want to gain some assurances over what they are acquiring including the sustainable earnings of the business, company valuation, working capital requirements, tax risks amongst other things.

They would get this comfort through carrying out financial due diligence, which is a fundamental process for any successful merger or acquisition.

The depth of due diligence required will depend on the complexity and structure of the transaction.

A more thorough due diligence process would typically be needed on any share acquisition (as opposed to the purchase of the business trade and assets) given that the buyer would be taking on the entire tax history of the company.

As well as financial and tax due diligence, a buyer may carry out further due diligence covering property, legal, commercial and operational aspects.

This article focusses on the importance of undertaking buy-side financial due diligence for any social care operator looking to expand through acquisition.

WHAT IS FINANCIAL DUE DILIGENCE REGARDING A CARE HOME ACQUISITION?

Financial due diligence is a process that involves analysis and interpretation of the underlying trading performance and financial position of a company to enable investors, lenders and acquirers to make informed decisions about whether to proceed with a transaction.

The due diligence process can also identify key risks and operational challenges that a buyer may need to consider when integrating the business with their existing systems and processes.

It may be appropriate for certain risks to be captured in the legal documentation by way of indemnity of specific warranties to give the buyer protection from legacy liabilities that may crystallize post-completion. Such risks can be identified through the financial and tax due diligence process.

Through a review of the underlying accounting records and mid-month cash movements, the financial due diligence will identify the working capital requirements of the target company. The working capital shows the level of cash locked up in the business and therefore the cash needed to fund day-to-day operations. A working capital target will need to be negotiated for inclusion in the Share Purchase Agreement and the due diligence will help ensure that the buyer does not have to inject further capital into the target company post-completion (and therefore paying more the business) in order to fund working capital requirements.

HOW LONG DOES THE FINANCIAL DUE DILIGENCE PROCESS TAKE?

Once an agreement in principle has been made between a buyer and seller, the key terms of the proposed transaction including the consideration payable is set out in a document called the Heads of Agreement.



Whilst this is not a legally binding document, the Heads of Agreement stipulate certain deal criteria, which helps avoid dispute and misunderstanding later in the transaction process.

The parties would typically agree a period of exclusivity, which gives the buyer sufficient time to carry out detailed due diligence to get the level of comfort they need to proceed with the transaction.

There is no fixed timeframe as to how long the due diligence process takes but a period three months exclusivity is typically in other transactions, we have advised on in the social care sector.

It is crucial to allow sufficient time to carry out a thorough due diligence process given the outcome could reveal valuable information essential to negotiating a fair purchase price and the identification of any legacy liabilities that may crystallise post-acquisition that a buyer would want appropriate protection from in the legal documentation.

WHO CAN I INSTRUCT?

Financial due diligence can be performed internally by the buyer's finance department or externally by independent experts. In some cases, investors may stipulate that financial due diligence is conducted by someone independent for them to obtain sufficient comfort that their investment is viable.

Using specialist advisers like the Hazlewoods Corporate Finance team is recommended. An advisor with sector expertise knows the challenges currently facing the social care sector and can provide real value in understanding how target companies are addressing these.

By outsourcing the due diligence process, you get piece of mind that any financial or tax risks will be identified with appropriate recommendations as to how these can be mitigated.



WHAT ARE THE BENEFITS OF CONDUCTING A FINANCIAL DUE DILIGENCE REVIEW?

In general, the results of a financial due diligence review should be able to answer the following questions:

- Is the information provided by the target or vendor reliable?
- Are the historical earnings of the company sustainable and are they representative of anticipated future earnings?
- What are the potential future earnings of the target company?
- Is there any synergistic benefits associated with the proposed acquisition?
- What are the immediate and future tax consequences of the proposed acquisition?
- What plans need to be in place for the post-merger implementation process?
- Is the purchase price reasonable given the results of the due diligence process and in particular, the sustainable earnings review?
- Are there any red flag observations that may mean the deal is not viable?

Is the proposed acquisition structure appropriate or is there any pre-completion reorganisation required to affect the transaction?

Financial due diligence is a vital part of any successful merger and acquisition process and can provide the level of comfort you need in proceeding with a potential acquisition.

The Hazlewoods Corporate Finance team has relevant sector expertise and experience to efficiently identify financial and tax risks that need to be addressed prior to completing a transaction.

If you are a social care operator and looking to expand through acquisition, our Corporate Finance team would be delighted to explore the opportunity with you in further detail.

For more information on how we can work with you, please contact Rachael Anstee, Partner on 01242 237661 or rachael.anstee@hazlewoods.co.uk.



Acquiring care businesses: the current legal challenges, comment from Hazel Phillips of RWKGoodman



When acquiring a care business in the current financial climate, the quality and speed of the legal process can make or break the transaction. There are a number of potential issues that a well-advised buyer can plan and prepare for ahead of time to mitigate the risk of delays and complications during the process.

TIMING AND COMMUNICATION

It is important to carefully plan the route to completion. Communication with sale-side is vital to keep everyone on-side whilst the early steps such as bank valuations are ticked off. **It can be helpful to kick off with an all-parties or professionals call to set out a timeline.**

If you start the legal process too far in advance of your finance coming online then work may have to be duplicated as information, including property searches, becomes outdated. Where a CQC application is required, timing is key as CQC no longer allow applications to hang around indefinitely and will require re-submission if a completion date is pushed out for several months.

IS EVERYONE ON THE SAME PAGE?

When making an offer, buyers should ensure they have as much information as they can about the proposed structure including where the property sits.

Tax and legal advice should be taken at an early stage. This is particularly key with a share purchase as if the property is held outside of the target company, SDLT at c.4% of the property price may be payable in addition to stamp duty on the shares at 0.5%.

Whilst no-one wants to spend a prolonged period negotiating heads of terms, it is useful to clarify key points at an early stage-exclusivity,

purchase price mechanism, apportionment of the price, seller liability thresholds and post-completion restrictions to avoid a lengthy debate later when tensions may be higher. Heads ensure each party's accountants and tax advisors are on board with how the purchase price is calculated and adjusted. This is also the point to consider whether a personal guarantee or retention is required to protect the buyer in the event of a post-completion claim.

WHAT'S HOT IN DUE DILIGENCE?

On the employment side, the increasing use of overseas staff in the sector has resulted in a focus on immigration compliance. Failure to pay holiday pay correctly for overtime continues to be a problem and it remains prudent to check furlough rules were complied with as HMRC continue to investigate error and fraud from the pandemic. [Read more about the importance of workforce due diligence when acquiring a care business here.](#)

Fire remains, ahem, a “hot topic”. It is often the case that only an internal fire risk assessment has been undertaken (crazily, there is no legal requirement for anything more) which provides little comfort that expensive works won't be required. Where this is the case, [we recommend an external assessment is procured ahead of completion.](#)

EYES ON THE GROUND

Legal and financial due diligence carried out by sector specialist advisors should provide you with a good feel for any issues. However, “eyes on the ground” are invaluable. Where possible, it is advisable to arrange to meet staff, view big ticket equipment such as lifts and consider carrying out a survey as this may pick up things that professional due diligence cannot.

Whilst it is reasonable for a seller to limit access due to concerns about confidentiality or public health, be wary if access is refused as our experience has shown that this means a seller has something to hide.

Our specialist Health and Social Care Team regularly advises providers of all categories on acquisitions and sales in the care sector. Please contact Hazel Phillips at hazel.phillips@rwkgoodman.com or 07776 241235

I am buying a care home, who can be the Nominated Individual?

As part of the care home acquisition process questions are often asked about the definition of a Nominated Individual and we have summarised a few of them below (source reference Skills for Care)



Question: What is a Nominated Individual (NI)?

Answer: *The NI is a role with the person/individual nominated by the organisation/the provider to represent it. It is a function as opposed to a job classification.*

Question: Should the Nominated Individual be employed by the organisation?

Answer: *The Nominated Individual needs to be a manager, director or secretary of the company or organisation. The NI is appointed to one of these positions with no requirement to have an employee contract. (However, it is always best to take employment advice)*

Question: Can an external person be appointed as a Nominated Individual?

Answer: *An external consultant can be appointed to assist in the supervision of the regulated activity and be engaged as the Nominated Individual, being appointed to work for the provider organisation. The details of the contract are between the organisation and the individual.*

Question: Is a formal interview of the Nominated Individual required with the CQC?

Answer: *There is no requirement for a formal interview, however, there may be an introductory call with the regulator.*

Question: How do you differentiate a Registered Manager from a Nominated Individual?

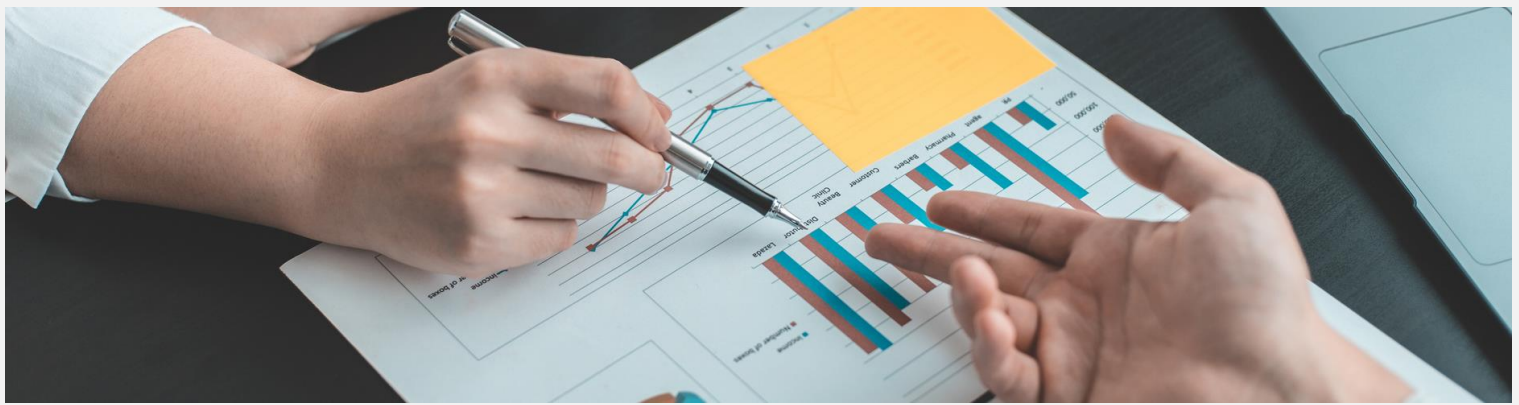
Answer: *The Registered Manager manages the regulated activity at the service location which could be at multiple sites and is required to have the capacity to manage the service. The Nominated Individual supervises the management of the regulated activity with continuous improvement being part of that role.*

Question: Is a Nominated Individual required to have a DBS?

Answer: *A DBS is not required with the registration of a Nominated Individual. The individual is appointed by the provider, and it is the provider's responsibility to ensure that they are suitable for the role.*

Question: Can a Nominated Individual be responsible for more than one organisation?

Answer: *Yes, an NI can work for several organisations, getting to know fully how the organisation works in order to fully supervise the management of the regulated activity.*



CASHFLOW FORECASTING TIPS

Along with the business finance application submission, lender underwriters often request a forecast cashflow to include sensitivity analysis. The forecast can include:

- **Up to three years forward projections with the start point from current monthly Management Information**
- **Occupancy scenario planning**
- **Fee level increases**
 - Analysis to include split of fees between private care provision and local authority funded
 - Some care homes restrict local authority placements
 - There may be a third party top up element
- **Include short term measures for operational funding**
 - Navigate higher wage costs
 - [Current energy prices](#)
 - Care homes are increasingly considering green, renewable energy solutions alongside the refurbishment cost
 - Increased cost of operations taking into account inflationary pressures
 - Assess the supply chain
 - Insurance history of the care home acquisition to [assess insurance cost](#)
 - Taking into account care home acquisition structure
 - Share purchase
 - Asset purchase
 - Combination of both
- **Debt serviceability stress testing**
- **Include your theory and assumptions behind the forecast calculations**

WHAT THE [CHANDLER & CO](#) BROKERS SAY:

The first quarter of 2023 continues to be a busy one with strong investor appetite to acquire care homes, whether to expand new and existing portfolios, or to repurpose a particular property in a demand led market. Here are a few comments from the specialist care home brokers when sourcing funding from the wider sector:

“For continuity, especially if you are a first-time care home buyer, consider the potential for the outgoing vendor to be a shareholder/director.”

“Always take [professional advice](#) when structuring a care home business ownership.”

“Care home buyers may need to look at raising capital against other properties that they or a family member owns in order to make the terms of the lender viable.”

“If you are a new entrant to the care home sector lender’s underwriters will always look at your related experience and how you intend to get to know the sector. Demonstrating working in the care sector, you may be a manager or senior carer in a care home, a GP or a pharmacist, as examples, having a clear plan from the start adds strength to a finance application.”

“New and growing care home businesses may benefit from the experience of Non-Executive Director(s).”

“Prepare a complete CV of all shareholders/directors when collating support for a finance application is important, with no gaps in the history.”

“When considering an infrastructure refurbishment prioritise carbon reduction, this in turn will support the ethos behind a financial application.”

“We consider the sustainability of figures in a finance application. If the staff costs look too low the lender underwriter will request further information on a Rota and rates of pay.”

“When looking at a development the lender underwriter will want access to the schedule of works to back up the anticipated cost.”

“When looking to scale up after purchasing, for example your first care home, the lenders usually want to access the trading performance of your latest acquisition.”

“There is an increased expectation for the vendor care home to have a large percentage of en suites or the capacity to increase them.”

CONCLUSION

Care home operators continue to look for scale when acquiring an additional care home for their portfolio, including widening their service offering, which may include retirement living units for extra care and supported living.

With continued smaller and older care home properties launching on the selling market, [Buyacarehome](#) continues to see interest in converting these properties whether trading or closed, into alternative use business operations, such as supported living, complex learning difficulty units, boutique residential dementia units or high end residential, HMO's.

Despite the challenges the care home and wider care sector remains resilient and the team at [Chandler & Co](#) continue to maintain strong client and wider network relationships to best support existing and new care homeowners as they navigate operational evolution and continue to grow their care services through care home acquisitions, refinancing, restructuring, developments and recapitalisation.

KEEP IN TOUCH

Keeping in touch with your broker for the longer term supports future funding requirements as a full understanding of the current and future needs of the care home business develop.

For more information to support you on your care home purchase contact Chandler & Co. on -

01622 817484 or email_finance@chandlerandco.co.uk

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