



Valuation and Transition – Maximize Your Value

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Today's Agenda

1. Introduction
2. The Transition Process – Tips to Maximize Value
 - a) Planning and Positioning
3. Valuation and Other Financial Elements
4. Summary
5. Current HealthCare Merger and Acquisition Marketplace – Macro View
6. BerryDunn Valuation Services Group
7. Questions

Introduction - Goals for Today

Focus will be on the Business Transaction Process – All business ownership will change from time to time. Much preferable to have a planned transfer as opposed to the alternative.

My Background and Experience –

Master's Degree in Business, 20 year operational career in the Hotel and Resort industry, and 17 years in the Business Valuation Group at BerryDunn. Material participation in over 700 business valuation engagements.

You are the experts in running Senior Living facilities. How many transactions has the typical business owner been involved in?

My focus will be on the financial point of view – valuation factors that drive value up (or down).

Who else should you be speaking with?

Corporate HealthCare Attorneys (CON?), Estate Planners, Retirement/Wealth Management, Tax Experts, Investment Bankers, your family, the management team.

Introduction (Continued)

Readiness To Exit:

Mental Readiness

- How involved am I in the day-to-day running of the business? (Can the business get by without my involvement?)
- How important is the business to my ongoing lifestyle?
- Do I have a plan on how I will spend my leisure time once I exit the business?
- Am I able to view the business as providing a return on invested capital, or am I more interested in the ease of the current lifestyle that the business provides (by covering many of my ongoing expenses)?
- Will I be able to think clearly throughout the transition process and make independent and objective decisions?

Financial Readiness

- Will the sale of my business allow me to afford the lifestyle that I am expecting – post exit?

The assumption for today's presentation is that the answers to the above questions are all Yes.

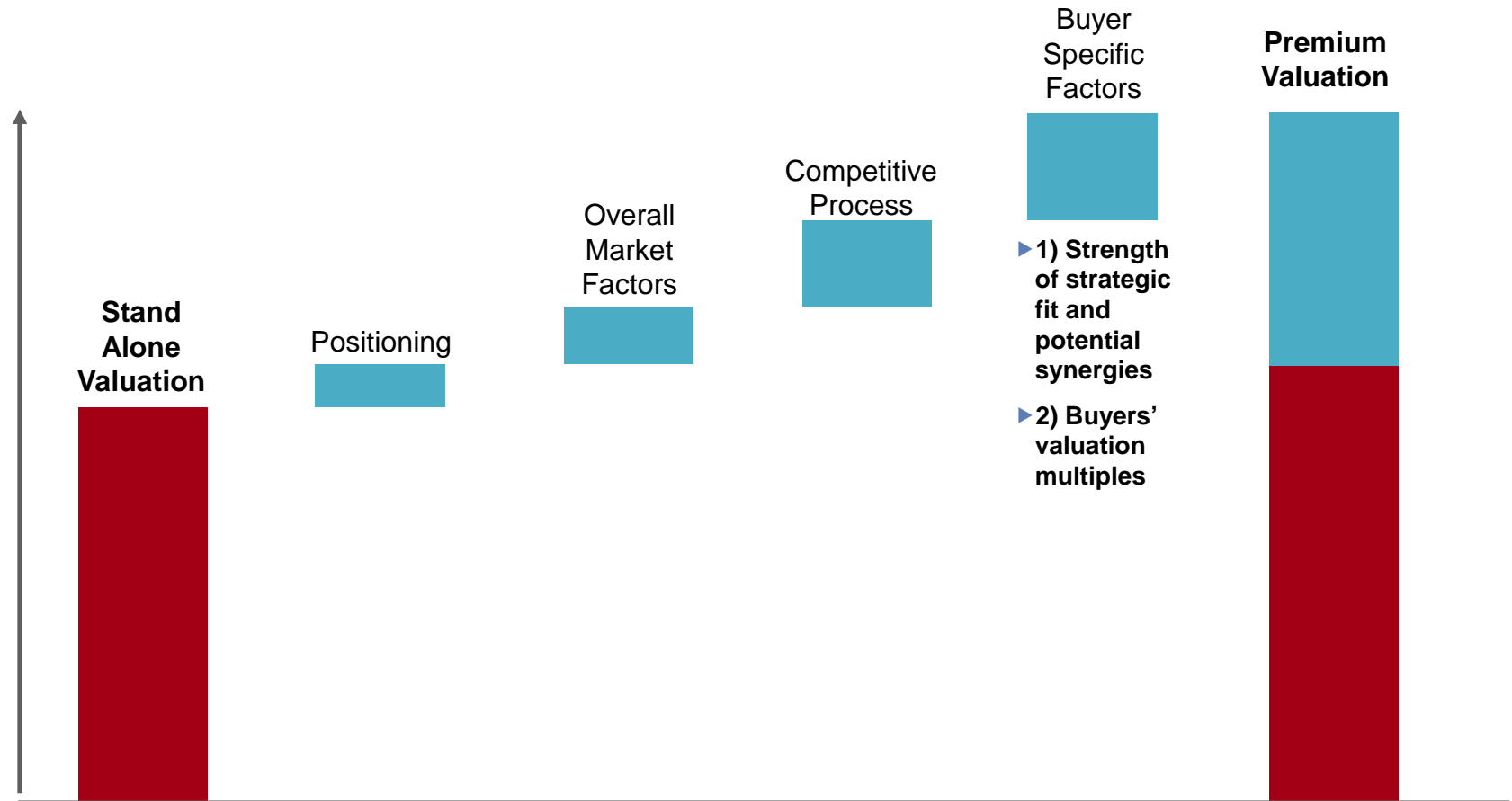
The Transition Process – Tips to Maximize Value

Positioning a Company for Sale

- Select the right advisory team
- Establish exit goals and objectives
 - What do I want to achieve with my business transition?
 - How will the transition affect employees, customers, the community?
 - How long will I continue to own the business and what role do I want to play?
- Develop a transaction strategy
- Match the process to strategic objective
- Target the approach to potential buyers
- Control the sale process
- Monitor market conditions
- Develop an appropriate timetable

Valuation and Other Financial Elements

Key factors critical to achieving a premium valuation



Valuation – Indication of Value

Rules of Thumb (For Illustration Purposes Only)

Advantages – Widely available and easy to use

Disadvantages – Produces unverifiable result – hard to support

A Multiple of Annual Revenue

50% of sales plus inventory

A Multiple of Annual Earnings

4 times EBITDA

2 times SDE (Sellers Discretionary Earnings) plus replacement cost of equipment

3 times EBIT plus real estate value

Valuation – Discounted Cash Flow Analysis

An Income Approach to Valuation is based on the Company's forecast and historic performance.

- Begin with a projection of ongoing earnings, then determine the risks associated with achieving those earnings.
- Develop the appropriate rate of return to compensate for the risk of the investment.
- Capitalization of earnings – stable operations.
- Discounted cash flow – allows for changes over time.

Valuation – So What is a Discount Rate?

A Discount Rate, or a “Rate of Return”

- Captures and quantifies the likelihood of achieving estimated future returns of a business entity.
- Measures the “risk” of not meeting the projected levels of profitability in the future.
- The greater the risk, the higher the Rate of Return, and the lower the value in today’s dollars.
- Includes the theory of Alternative Investments.

Valuation – Value Drivers

The Valuation Approaches are Heavily Dependent upon Critical Value Drivers That Lower Risk

- Demonstrable Income Streams
- Reliable Forecasting of:
 - Payor Mix
 - Census
 - Operating Expenses
- Other Factors
 - Clean Billing History
 - Well Maintained Physical Plant
 - Historic Management Performance

Telling The Story

In order to maximize the selling price, the Seller needs to have a good story to tell. Key elements of that story are:

- Clean Financials
- Positive Forecast
- Strong Management Team
- Specific Information on how the business has minimized as many of the elements of Specific Company Risk as possible

Recommended Actions Prior to a Sale Process

- Have at least 2 – 3 Years of Audited Financial Statements (or Reviewed at minimum)
- Document and Implement Strong Financial Controls and Systems
- Prepare and Use a Business Plan including a Budget and Projections of Expected Financial Performance
- Prepare a regular variance report explaining actual vs. budgeted results with the goal of minimizing significant differences
- Establish Written Corporate Governance Policies and Procedures
- Engage a Business Valuation of the Company

Other Non-Financial Elements

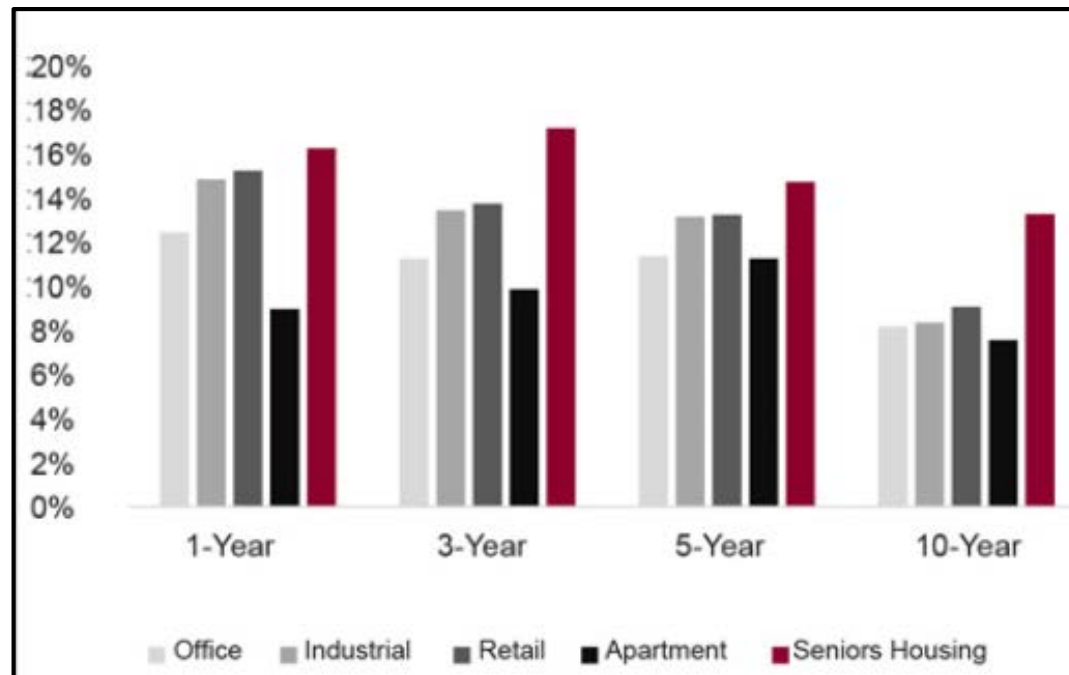
Other Recommended Actions

- Review and update corporate records
- Perform an internal legal audit
- Review material contracts and leases
- Prepare Positioning and Marketing Materials
- Actively Manage the Dissemination of Information – Maintain Control
- Thoroughly Prepare Management for Presentations
- Create a Sense of Urgency and Emphasize the Competitive Nature of the Bidding Process
- Consider a Board of Directors or an Advisory Board

Current HealthCare M&A Marketplace – Macro View

What is the State of the Seniors Housing M&A Market?

After six-years of low capitalization rates and increases to property values, the trends in senior housing prices is starting to level off. However, values remain high as long as returns continue to be strong.



Current HealthCare M&A Marketplace – (Cont.)

Some recent comments from industry insiders: ¹

“While the pace has cooled, it’s all relative — the market went from red hot to just hot. The overall market is past peak, but not in a dive at all. It is more of a gradual slowing and plateauing.”

“This tells me that the market is still strong. There is an abundance of low-cost capital. Buyers are anxious to acquire properties before interest rates increase.”

“The sale of independent facilities typically happens for two reasons in today’s market. First, the market is still experiencing historically high pricing, so now is as good of time as ever to exit and capture a high valuation. Secondly, many are unable to compete going forward as a single-asset operator.”

“The buyers we see in today’s market are existing operators/ investors, typically mid-sized, looking to add beds to stay competitive, especially with managed care providers.”

1. www.seniorshousingbusiness.com – Sept. 2016

Valuation and Transition – Valuation Services

BerryDunn Valuation Group Overview

- The Valuation Group provides business consulting services for both existing BerryDunn clients and prospective clients.
- The majority of our practice involves work for existing clients, but between 25% and 30% of our work involves new business.
- Our geographic market is concentrated in Northern New England, but we perform work anywhere in the U.S.
- Our concentration is not industry specific as we work with all industry groups and all types of businesses.
- As HealthCare is the largest BerryDunn Industry Group, naturally, we have a large HealthCare Valuation practice.
- While no member of our current Valuation Team is a CPA, each one of us has either advanced education in Finance and Accounting, or specific Business valuation training – or both.

Questions?

