Ensuring Your Legacy: A Guide to Exit Planning for Home Care Agency Owners

WHAT WILL YOUR LEGACY BE?

As a business owner, you've devoted substantial energy and countless hours to your home care agency. While it may seem daunting to think about, developing an exit plan is critical to the health and longevity of your business.

An Exit Plan Can Help You:

- Secure a dignified retirement from the sale of your business
- Ensure that the jobs you have created stay in your community
- Maintain the critical services your agency provides to local families and seniors

A year after selling their business, 75% of business owners regret the sale.[1] With an exit plan, you can maintain control throughout the transition process and leave on your terms.

You've probably thought about selling to a competitor or third-party investor, key managers, or possibly a family member. You've likely wondered if a strategic buyer is interested in your business, or considered liquidating your assets.

One option that you may have never considered is a sale to a broad base of your employees. By selling to employees, owners can receive a higher gain, set the pace of the sale, and ensure the long-term success of their business. Unlike selling to an outside buyer, the goals of selling owners and buying employees are deeply aligned.

This Guide Contains:

- **A step-by-step process for creating an exit plan**
- **Considerations specific to the home care industry**
- **Examples of employee-owned home care businesses**
- **A detailed comparison of the pros and cons for different ownership transfer options**
- **Common traps to avoid when crafting your exit plan**

1. Exit Planning Institute. The State of Owner Readiness Survey 2013 National Survey Final Report. 2013.

WHAT IS THE EXIT PLANNING PROCESS?

The exit planning process involves 3 stages:

1 Stage 1: Identify Your Goals for Exiting Your Business

The first stage of exit planning involves setting goals for yourself and your business, including:

- **Your target date for exiting the business**
  What is your timeline for no longer being involved in the day-to-day operations? Do you have a different timeline for transferring ownership of the business?

- **Your involvement with the business**
  What are your goals for future involvement in the business? Do you want to exit the business gradually, stage reduction in ownership and responsibility, exit completely at the time of transfer, or remain actively involved?

- **Your financial needs**
  What is your target selling price? Can you receive a portion of the sale over time? How much cash would you need immediately? What amount of annual income will you need post-exit? What amount do you want to leave to your family? How much seller financing is acceptable to you?

- **Your ideal successor**
  What role do you play in the business, and how will your role be covered when you exit? Do you want to sell to an outsider through a broker or an internet marketplace? Or do you have someone in mind who you want to transfer your business to, such as an employee or family member? What are the goals and needs of your potential successors?

- **The legacy you want to leave**
  Are you okay with your agency becoming part of a national chain? Do you want to preserve your agency's legacy in your community? Are you looking to take care of or reward your employees for their years of dedication and service?

Some of these goals require input from others. Conversations with family members and trusted peers can help with identifying your timeline and financial needs. It is often valuable to also consult a professional, such as a financial planner, CPA, or lawyer.

❷ Stage 2: Develop a Plan to Meet Your Goals

After you've identified your personal and business goals, you can make a plan for achieving them. This is done by:

- **Conducting a business valuation**
  A valuation will tell you what your business is worth and how the value is determined. You can use the valuation to assess the gap you need to fill between today's value and the value you need when you exit.

- **Updating your business plan**
  This plan can serve as a roadmap for making business improvements and other strategic decisions that can maintain or increase the value of your business.

- **Creating a management succession plan**
  Crafting this plan requires you to consider options for future ownership and management of the business. By outlining all the tasks that you perform as a business owner, you can develop a strategy to transition these tasks to other people within your target timeframe.

❸ Stage 3: Implement Your Exit Plan

Once you understand what needs to happen financially and operationally to achieve your goals, you should develop a timeline with key milestones for exiting your business. As you implement your exit plan, it's important to continually revisit the plan in case your goals change or your strategies for achieving your goals need to be adjusted.

" [My business partner and I] were concerned about what would happen when we eventually retire. Employees are our only asset, really. [Employee ownership] is the perfect way to keep them engaged."

- Tim James, Co-Founder, Ewing Controls

Visit **www.icagroup.org/homecare** for information and resources on business valuation.

Special Considerations for Home Care Agencies

While many aspects of exit planning are universal across industries, there are also some issues that are unique to the home care industry to consider in your planning process.

Emerging from a Crisis

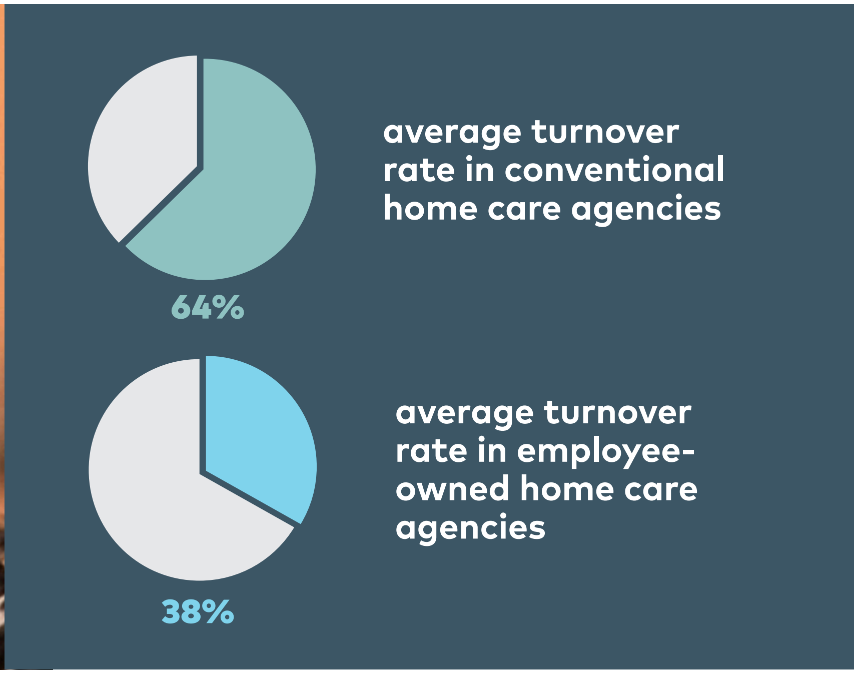
As the home care industry emerges from the COVID-19 pandemic, many agency owners will elect to exit their businesses. During this time, it is likely that there will be an increase in the number of agencies for sale, driving prices down for buyers. By waiting until the market improves, you can maximize the value of your agency.

Recruitment and Retention

The industry is facing an unprecedented caregiver shortage as the demand for home care increases, and this may be exacerbated by the COVID-19 pandemic. Research has shown that job satisfaction and growth are higher in employee-owned companies, increasing the quality of care and saving precious financial resources. If you are nearing retirement but not yet ready to exit, a staged transition of your business to your employees could improve engagement and retention, increasing the value, and longevity of the business you've built.

Private Equity and Consolidation

Private equity firms are swarming to the home care industry in response to the swelling demand for services. Part of their strategy is to consolidate smaller agencies in key geographic territories. For independent agencies considering a sale to a private equity firm, it is important to understand the elements of the business that are lost in the sale. Private equity and large national firms are not driven by providing high quality, community-centered care. A transition to employee ownership, on the other hand, would ensure your legacy by honoring the years of hard work you put into caring for your community.



- **Few Options for Small Independent Owners**
  While private equity firms and national chains are consolidating smaller agencies, these buyers are selective about the agencies they consider. Unless your agency offers top-rated care, diversified services, and has a demonstrated track record of profitability, you will probably be overlooked. Research by the ICA Group found that independent home care agencies represent only a small fraction of home care sales. Investors favor corporate home care companies. Without a buyer, smaller independent agencies are at risk of closing.

How ICA Can Help

Our exit planning staff can help you set exit goals and determine your financial needs for retirement. After working with us, you will receive a summary report including:

- **Business Health Check**
- **Enterprise Valuation**
- **Analysis of Business Value Drivers and Tips to Maximize Value**
- **Summary of Paths to Exit the Business**

Visit **www.icagroup.org/homecare** to see if you qualify for grant-funded succession planning services.

Employee Ownership Across the Country

> **We're very successful because of the level of devotion and commitment our [employee-owners] put into their work every day.**
>
> **- Founding member of Peninsula Home Care Cooperative**

Peninsula Home Care Cooperative was launched in early 2016 in response to the growing demand for home care services and the need for quality jobs to retain caregivers in the community. Word of the new cooperative spread quickly and within their first year of operations, Peninsula saw its revenue increase four-fold.

This success has carried forth. By year two the cooperative home care agency was able to share company profits with employee-owners, increasing overall caregiver wages and improving retention. As a result, Peninsula Home Care Cooperative boasts an industry-leading employee turnover rate of only 26%. As co-owners, every caregiver member is trained on business financials, effective communications, and business sales.

> **The co-op is a very good option for any business owner because it allows you to step away with a sigh of relief that what you implanted in whatever community you are in, can still survive.**
>
> **- Owner of a family business that was sold to its employees**

Nationwide there are more than 450 employee-owned cooperatives, including:

Cooperative Home Care Associates of New York | the largest worker-owned company in the U.S with over 2,000 employees

Ownership Transfer Options for Home Care Agencies:

It's important for business owners to understand all available options when selling their business to a new owner. In the home care industry, options for ownership transfer include:

Sale to large home care company or chain	Sale to an owner-operator	Sale to a manager or group of employees (management buyouts)	Internal transfer to family members	Sale to staff as an employee-owned business (cooperative)
Large chains and companies are typically the only buyers who can purchase agencies with a 100% cash offer. This allows owners to cash out of the business at the time of sale.	Few owner-operators will be able to fully finance the purchase of the purchase of an agency, resulting in the need for a combination of seller financing and bank financing. Owner-operators typically rely on small business lenders for bank financing, and these lenders factor in the buyer's creditworthiness.	A manager's desire to purchase the business does not necessarily mean they are financially able to do so. Small business lenders will factor in the buyer's creditworthiness as they consider financing the business transfer. Generally, most management buyouts will require a combination of seller financing and bank financing.	Family transfers may require seller financing, especially if your family member is not an experienced business owner. You might also feel like you should take on more risk with the financing because you are transferring within the family. Bank financing is typically available if your family member has a strong credit history or a proven track record of business success.	This is an unfamiliar option to traditional banks and requires financing from mission-aligned Community Development Financial Institutions (CDFIs) that lend to employee-owned businesses. These CDFIs underwrite loans using some of the same standards as traditional banks, but they do not look at the creditworthiness of individual employees.

What is seller financing?

85% of all business sales include seller financing, which means the buyer pays the seller in installments over time from the profits of the business, as opposed to the full price in cash at the time of sale. Seller financing increases risk for the selling owner, since the business must generate profits in order to pay back the loan. However, by receiving interest payments in addition to the sale price of the business seller financing can be a way to maximize total profits from the sale of your business.

	Sale to large home care company or chain	Sale to an owner-operator	Sale to a manager or group of employees (management buyouts)	Internal transfer to family members	Sale to staff as an employee-owned business (cooperative)
2 Likelihood of finding a buyer	Each chain has a strategy for the size, location, client base, and type of agency they like to acquire. Generally, larger agencies with modern, well-maintained facilities and a demonstrated track record of profitability are good candidates for large chain acquisition. It can be helpful to work with a broker who specializes in these acquisitions.	Owner-operators make up the majority of buyers in the industry and are often found using your existing social networks. Although it can be sensitive, connecting with local competitors looking for a second location is often a productive way to find a buyer. It can also be helpful to work with a local broker to identify potential buyers.	This option requires a lot of trust to talk to your staff about exiting your business and their financial capacity to take over. If your key managers are also approaching retirement age, this may impact their ability and capacity to purchase your business. Planning ahead for this exit option by training a motivated and entrepreneurial staff member to become your successor can be very valuable.	While family transfers are decreasing in frequency, this option is another common way to exit your business. However, it is important not to assume family members will buy your business. Plan ahead by having open and honest conversations with your family members to see if your goals align.	Because the risk of business ownership is spread out among a group of people, it can feel easier for employees to say yes to taking over the business. Because financing is shared among a group of buyers, this option is not dependent on the financial ability of any single employee. Since this is an unfamiliar option, it requires support and training to help employees decide whether this is an option they want to pursue.
3 Value	In general, selling to someone you don't know can generate the highest selling price, since setting the price remains an objective process and strategic buyers might be willing to pay more for the business because of the advantages they see in owning it. If you use a broker to sell your business, they typically charge a commission of about 10% of the sale price.	In general, selling to someone you don't know can generate the highest selling price. If you end up identifying a buyer who you have an existing relationship with, you might feel pressure to negotiate on price. If you provide any seller financing on the deal, you'll receive interest payments on top of principal payments, which increases the total amount of money you receive for the business.	Because you're selling to a buyer who you have a relationship with, you might feel pressure to negotiate on price. Additionally, these buyers might have insider information to negotiate on price. If you provide any seller financing on the deal, you'll receive interest payments on top of principal payments.	Because you're selling to a family member, you might feel pressure to heavily discount or even give away the business. You might also feel pressure to reduce the interest rate on any seller financing, thus reducing the total amount of money you receive for the business.	Owners can get a fair price for the business because the sale price will be determined by a financial valuation of the business. Because you're selling to a group of buyers who you have a relationship with, you might feel pressure to be flexible on price.

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4 Timeline for transferring ownership	Because these buyers are selective about the types of agencies they acquire, it can take longer to find a buyer. But once you've identified a buyer, you can exit on a faster timeline.	Once you've identified a buyer, you can often exit on a faster timeline.	Because this option requires management to take over your responsibilities, the timeline depends on how much succession planning you've done. This option can also happen gradually, at a pace that suits your needs.	Because this option requires family members to take over your responsibilities, the timeline depends on whether your family is already involved or familiar with the business. This option can also happen gradually, at a pace that suits your needs.	Because this option depends on employees taking over your responsibilities, or identifying and engaging a new manager, the timeline depends on how much leadership development and training you've done.
5 Owner involvement post-transaction	Because this option does not require seller financing, it typically results in you having no control or connection to the business post-sale.	Your involvement post-sale depends on whether you've provided any seller-financing and your financial dependency on the future success of the business. Your willingness to stay involved with the business can increase the likelihood of finding a buyer and securing financing.	Your involvement post-sale depends on whether you've provided any seller financing and your financial dependency on the future success of the business. Because you have a relationship with the buyer, they might turn to you for advice and support, regardless of your formal relationship to the business post-sale.	Keeping the business in the family means that the business will likely continue to be a part of your life. Having family ties to the new owner(s) can make it challenging to establish boundaries regarding your continued involvement.	Your involvement post-sale depends on whether you've provided any seller-financing and your financial dependency on the future success of the business. Ideally, you'd stay connected to the business as a consultant or board member to support employees in successfully taking over the company.

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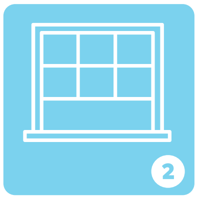
6 Culture of company	This option creates uncertainty for the future culture and "feel" of your agency. These buyers typically centralize office administration, training, and other business functions, which can result in culture changes or even employee layoffs.	This option creates uncertainty for the future culture and "feel" of your agency. New owner-operators can continue the business as is, or bring different skills and energy that results in culture changes.	These buyers can preserve the agency's legacy and values by maintaining what is working well with the agency's operations and culture. Because they know how the business works and have relationships with clients and staff, this option can create stability during the transition. While this option rewards the employees who take over the business for their years of service, it can create unfavorable dynamics with other employees.	By keeping the business in your family, you can preserve your legacy and the "family-owned" feel of your business. If the new owner has been closely involved with the business, they'll know how the business works and have relationships with clients and staff, which creates stability during the transition. This option can create unfavorable dynamics in the company if family members are not already leaders in the business.	This option can preserve the agency's legacy and values by maintaining what is working well with the agency's operations and culture. Employees already have relationships with each other and with clients, which creates stability during the transition. This option also rewards employees for years of service. As employees approach their work with the insight of both a worker and an owner, they often come up with innovative ideas and solutions.
Likely Challenges	These buyers are selective about the agencies they consider. They often look for businesses in key geographies with strong community relationships, a solid client reputation, and a demonstrated track record of profitability. Unfortunately, these buyers may not be a possibility for many smaller, independent agencies.	This option comes with a lot of uncertainty. The owner-operator's experience leading a home care agency, the changes they implement, and how they're received by clients and staff will all likely impact the transition.	Because many agency managers do not have the savings to purchase the business outright, this option can be challenging, regardless of a manager's desire to take over the agency.	Mixing business and family can be complicated, and family members might not have the same understanding of what the transfer entails. Pursuing this option requires having honest conversations with family members about your vision and goals.	Cooperatives are not well known, and so employees will need additional training and support to pursue this option and learn how to successfully run a home care agency.

Tips for a Successful Exit Plan

It's useful to be aware of some common owner beliefs and actions that can prevent your exit plan from being successful.

Get Real

Use a valuation to set your expectations for sale price. The belief that the business value is higher than the actual value (as determined by a valuation) and an inability to readjust expectations around sale price can be barriers to a successful sale.



Remember the Big Picture

It's common to focus exclusively on top-line price for the business, but the transaction structure can have a large impact on the after-tax net proceeds you receive for the business. As you weigh your options, consider the cash you'll receive for the business both upfront and as interest payments over time.

Let Go

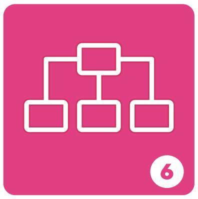
Failure to extract yourself from daily operations can jeopardize the business' ability to function without you, so focus on training and supporting staff to take over your role.

Be Prepared

Don't enter into deals hastily or without preparation and due diligence. Your business is likely one of your most valuable assets. Treat the process with care.

Keep Your Eyes on the Ball

Pay attention to business performance, including billable client hours, caregiver turnover, and spending, throughout every stage of the transfer process in order to maintain business value.



Be the Boss of Your Exit

Implementing your exit plan can require additional support from professionals, such as a broker, financial planner, CPA, or lawyer. This support can be expensive. Before you begin working with any consultant, make sure they understand your values and goals for working together. It is important to manage your exit team and remain in regular communication to confirm progress.