

Home Care Franchise Industry Update 2015

A Report on the State of the Franchised Home Care Sector.



Table of Contents

Home Care Franchise Industry Update 2015.....	1
About the Report	1
Report Summary	3
A Straightforward Franchise Model.....	3
Positive Results for Home Care Franchising	3
An Aging Population.....	5
Income Distribution Of The Population Age 65 And Over, 1975–2010.....	5
Median household Net Worth in 2007 Dollars	6
Senior Population Growth	7
Top 10 States Projected Age 65 and over by 2020	8
Top 10 States in Population Age 75 and over by 2020	8
Home Care Franchise Analytics.....	9
The Top 10 Home Care Franchises Based Upon Number of U.S. Locations	9
Top 10 Home Care Franchises Based Upon the Franchise Performance Index™	9
A Profile of Home Care Franchises.....	10
Home Care Franchise Outlet Growth.....	11
Franchisee Turnover Rate	13
Financing & Lending Analysis.....	15
2015 M&A Activity	16
Types Of Home Care Agencies	17
Skilled Nursing Home Healthcare	17
Companion or Non-Skilled Home Care	18
Private Duty Home Care and Senior Care Services	18
Nursing Registries	18
Licensure Requirements for Non-Medical Home Care by State.....	19
License Required	19
Home Care Agency Accreditation	19
Copyright.....	20

Home Care Franchise Industry Update 2015

About the Report

This is the fourth annual report presented by FranchiseKnowHow, LLC that contains information and trends pertaining to the home care franchise industry. This is the first report that represents a collaboration between FranchiseKnowHow, LLC and FranchiseGrade.com. We are pleased to include FranchiseGrade.com in this project and to include analytics, data and analysis from FranchiseGrade.com's extensive data base of 2,400 Franchise Disclosure Documents. It also includes data, information, and statistics from the following sources: U.S. Census Bureau Department of Aging, U.S. Department of Health and Human Services. FranchiseKnowHow and FranchiseGrade.com have made every effort to provide accurate information. If there any comments or questions regarding the contents of this report please contact FranchiseKnowHow at franchiseknowhow@gmail.com or 631-246-5782 or FranchiseGrade.com at jeff.lefler@franchisegrade.com or 1-800-975-6101.

FranchiseKnowHow, LLC

FranchiseKnowHow, LLC, publishes newsletters and articles for the franchise industry and consults businesses considering franchising their business. Ed Teixeira, President of FKH testifies as an expert witness on the franchise industry from time to time. The company also assists franchisors that look to export their franchise to other countries. Ed Teixeira, the author of this report, has spent over 35 years in the franchise industry, including 15 years in the franchised home healthcare sector. He has served as a senior executive for a publicly traded home care franchisor as well as franchisee of a multi-million dollar home care operation with six locations. He was also Chief Operating Officer of a publically traded franchised medical staffing company. During his tenure, Teixeira was directly responsible for executing international licensing agreements to include the first U.S. home healthcare franchise license in Japan and agreements in Spain, Indonesia and Brazil. He is the author of *The Franchise Buyers Manual* and *Franchising From The Inside Out*.

FranchiseGrade.com

FranchiseGrade.com is the leader in competitive market research and data collection for the franchise industry. The importance of data collection in the franchise industry cannot be overstated since it provides the basis for analyzing and reporting information needed to make informed and qualified decisions. The franchise data gathered by FranchiseGrade.com can be used to analyze, evaluate and explain a wide range of business activities within the franchise industry. Our franchise assessment, grading and standardized reporting tools provide industry

stakeholders and investors with important data driven metrics to support the growth of successful franchises.

We service:

- A prospective franchisee exploring and planning to invest in a franchise,
- An individual interested in acquiring an existing franchise,
- A private equity or investment group seeking to make a franchise acquisition or investment,
- A franchisor looking for ways to improve the performance of your franchise operation and competitive position,
- A franchisee association recruiting new members,
- An academic institution exploring the franchise industry.

Report Summary

A Straightforward Franchise Model

Home care is a straightforward franchise model coupled with a growing and sustainable market. Home care franchisors have developed business models that provide software for their franchisees that includes caregiver scheduling, management and financial control systems. This can enable their franchisees to operate more effectively and efficiently. Since the majority of home care franchisors limit their services to companion and homemaker activities, operational processes including client billing, are rather straightforward. In order for a franchise to be successful there needs to be a sustainable market that franchisees can tap into and large enough as to provide each franchisee the opportunity for continued growth. Home care services fulfill this requirement. The market is fueled by the continued aging of the U.S. population and the lower cost of home care compared to institutional care. The population of those 65 and older is projected to represent 14.5% of the total U.S. population by the year 2015 totaling almost 47 million people. Clearly the size and growth of this market will attract more companies to franchise and more individuals will invest in franchises. According to the Bureau of Labor Statistics, home care services are projected to be the 4th fastest growing employers through 2018. For individuals interested in owning a franchise, the home care sector offers a franchise opportunity for a reasonable investment.

Positive Results for Home Care Franchising¹

The home care franchise sector has experienced significant growth in the past 10 years with notable expansion beginning in 2010. For example, from 2010 to the present the number of home care franchise systems have increased by 24 and the number of franchisees in the United States has increased from 4,038 to 5,522 from 2010 to 2013. The report analyzed 61 home care franchise systems. The home care franchise segment continues to be one of the fastest growing sectors in the franchise industry. Since 2004 the number of unique home care franchise systems has grown by 44. In addition to the growth of home care franchising, the performance of home care franchises has been very good. For example, the number of lawsuits involving franchisors and franchisees are very low. There were 42 franchisors reporting no lawsuits brought by franchisees and 53 franchisors reporting no lawsuits against franchisees. This can be considered an indication that this franchise sector represents a high degree of positive franchise relations. By virtue of the relationship the franchise industry will always have some franchisor/franchisee disputes; however, in the case of the franchised home care sector the signs remain positive for this growing industry.

¹ Source: FranchiseGrade.com

The Franchisee Turnover Rate (FTR) of 9.3% for the home care sector is excellent and compares favorably to the franchise industry FTR of 9.9%. When comparing terminations and ceased operations home care franchises were only 4.9% compared to 6% for the franchise industry.

A home care franchise that provides unskilled home care services typically requires a lower investment and minimal equipment compared to other franchise concepts. Almost half of home care franchisors allow a home based operation. These factors coupled with a growing market and increased demand for services has continued to fuel the growth of home care franchises. The 61 home care franchises were ranked using the Franchise Grade® proprietary Franchise Performance Index™ and The Top 10 ranked home care franchises are listed on page 9 of this report.

An Aging Population

Income Distribution Of The Population Age 65 And Over, 1975–2010²

Year	Poverty	Low income	Middle income	High income
1975	15.3	35.0	32.3	17.4
1980	15.7	33.5	32.4	18.4
2000	9.9	27.5	35.5	27.1
2002	10.4	28.0	35.3	26.2
2004	9.8	28.1	34.6	27.5
2006	9.4	26.2	35.7	28.6
2008	9.7	26.5	33.7	30.1
2010	9.0	25.6	34.0	31.4

The significant increase in middle and high income seniors can help to pay for more private duty home care.

The income categories are derived from the ratio of the family's income (or an unrelated individual's income) to the corresponding poverty threshold. Being in poverty is measured as income less than 100 percent of the poverty threshold. Low income is between 100 percent and 199 percent of the poverty threshold. Middle income is between 200 percent and 399 percent of the poverty threshold. High income is 400 percent or more of the poverty threshold. Income distribution in the Current Population Survey is based on prior year income. Reference population: These data refer to the civilian noninstitutionalized population.

² Source: U.S. Census Bureau,

Median household Net Worth in 2007 Dollars, by Selected Characteristics and Selected years 1989–2007 In dollars³

Year	1989	1992	1995	1998	2001	2004	2007
Age of family head							
65 and over (000)	\$122	\$132	\$136	\$175	\$196	\$195	\$220
45–54	157	113	125	134	157	159	185
55–64	158	164	156	162	216	276	253
65–74	124	142	150	186	208	208	239
75 and over	116	125	125	160	182	179	213

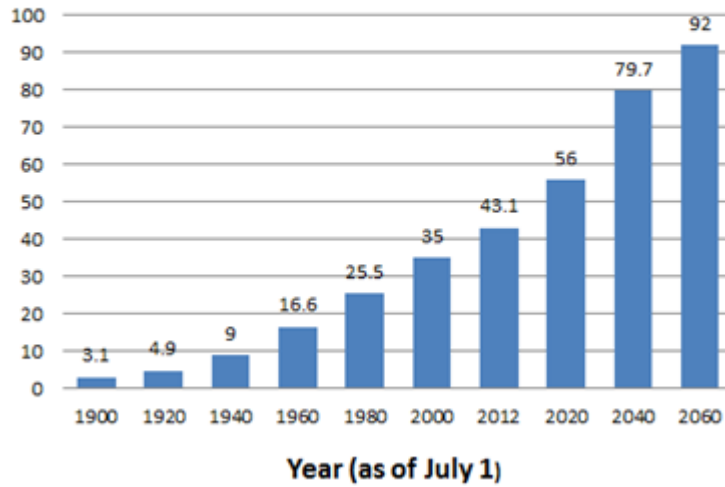
The net worth by seniors has continued to increase.

Married includes legally married couples; unmarried includes cohabitating couples, separated, divorced, widowed, and never married. The Survey of Consumer Finances has replaced the Panel Study of Income Dynamics as the data source for this indicator. Median net worth is measured in constant 2007 dollars. Net worth includes housing wealth, financial assets, and investment retirement accounts such as IRAs, Keoghs, and 401(k) type plans. Data are weighted. The term “household” here is similar to the Census Bureau’s household definition. See Indicator 10 data source for more detail.

³ Source: Survey of Consumer Finance Data

Senior Population Growth

**Figure 1: Number of Persons 65+,
1900 to 2060** (numbers in millions)



4

This chart shows the continuing growth of the senior population which will fuel the continued growth of the home care industry. The franchise home care sector will continue its growth as the U.S. population continues to grow in size and age since. Home care services properly administered, are less costly compared to the cost at long term care facilities.

By 2020 it is projected that there will be 56 million people in the U.S. 65 years or older.

⁴ Source: Administration on Aging

Top 10 States Projected Age 65 and over by 2020⁵

California	6,199,126
Florida	5,106,857
Texas	3,755,814
New York	3,250,020
Pennsylvania	2,403,118
Illinois	1,988,476
Ohio	1,974,464
Michigan	1,711,476
New Jersey	1,552,544
North Carolina	1,618,578

Top 10 States in Population Age 75 and over by 2020⁶

California	1,968,956
Florida	1,634,715
New York	1,261,865
Texas	1,156,012
Pennsylvania	992,160
Ohio	769,535
Illinois	758,789
Michigan	627,321
New Jersey	566,497
Virginia	429,230

⁵ Source:U.S. Census Bureau

⁶ Source:U.S. Census Bureau

Home Care Franchise Analytics

The Top 10 Home Care Franchises Based Upon Number of U.S. Locations⁷

1. Comfort Keepers
2. Home Instead Senior Care
3. Visiting Angels
4. Right at Home
5. Home Helpers
6. Interim HealthCare
7. BrightStar Care
8. Senior Helpers
9. Synergy HomeCare
10. Griswold Home Care

Top 10 Home Care Franchises Based Upon the Franchise Performance Index™⁸

1. Visiting Angels
2. Comfort Keepers
3. Amramp
4. FirstLight HomeCare
5. Seniors Helping Seniors
6. Homewatch CareGivers
7. Right at Home
8. Griswold Home Care
9. Amada Senior Care
10. BrightStar Care

The **Franchise Performance Index™ (FPI)** is used to analyze and grade franchise investment options. The analysis and determination of our FPI is based on factors and variables considered important when evaluating franchise performance. These include a series of weighted factors and variables deemed important for the health and success of a franchise system. From our FDD analysis and additional research we have defined some of these critical factors: the number of years franchising, Franchisee Turnover Rates (FTR), litigation history, comparative individual system and sector growth, executive backgrounds, franchisee satisfaction survey results, lending data and others. We validated the importance of these variables through a number of channels including a survey of 150 franchise industry experts.

⁷ Source: Franchise Disclosure Documents

⁸ Source: FranchiseGrade.com

A Profile of Home Care Franchises⁹

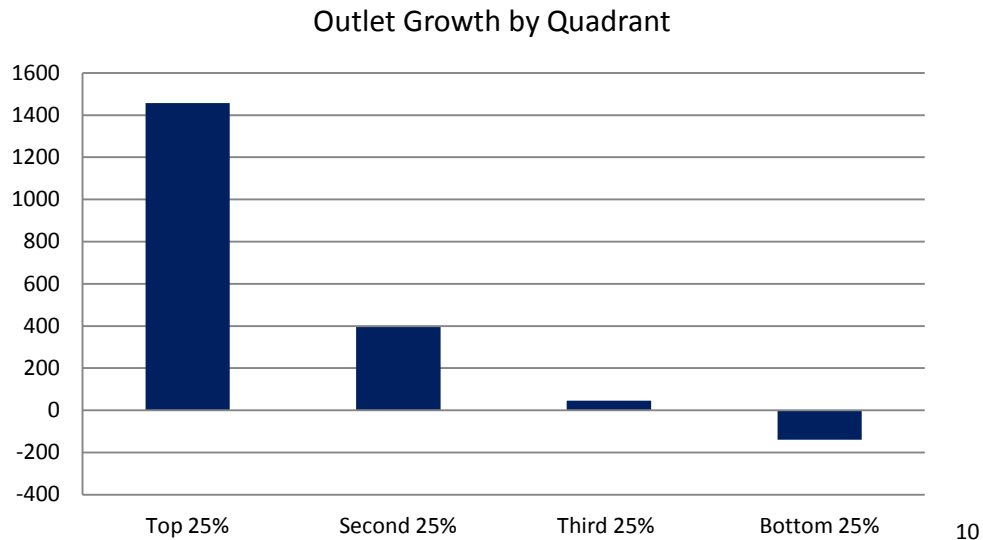
Item	Average	Median
Min. Initial Franchise Fee	\$37,736	\$42,087
Max.Initial Franchise Fee	\$39,500	\$41,250
Royalty	6%	5%
Min.Franchise Investment	\$91,729	\$70,875
Max.Franchise Investment	\$172,958	\$123,945
Initial Term	9 years	10 years
Renewal Term	8 years	10 years
VetFran Participants	12 Franchises	

The typical home care franchise requires a reasonable investment and as the above table shows the royalty averages a reasonable 6% to 5%. In addition the renewal terms range from 8 to 10 years. In contrast to a number of franchise concepts home care franchises have a fairly straightforward franchise program without a load of add-on expenses and costs that their franchisees incur.

The one variable regarding home care franchising and the investment is the type of services they provide. If a home care franchise provides skilled nursing services than that change in the program and services could increase the investment somewhat. The fact that virtually all home care franchises are almost 100% private pay alleviates cash flow issues that agencies that accept Medicare and Medicaid reimbursement have to deal with.

⁹ Source: Franchise Disclosure Documents

Home Care Franchise Outlet Growth

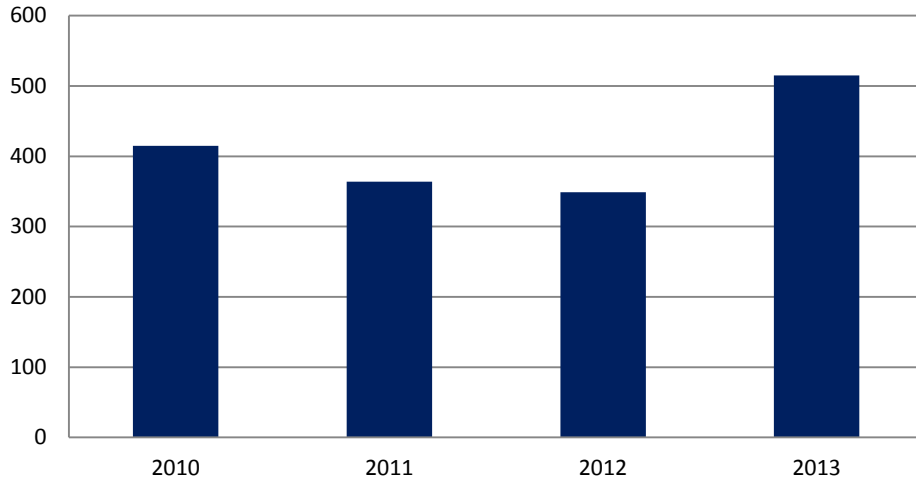


The number of Sold but Not Opened (“SBNO”) franchise locations from Item 20 of the Franchise Disclosure Documents totals only 270 for 61 franchise systems or an average of less than 5 per franchise. The largest franchise has 69 SBNO and the next 2 systems have 20 each.

These results indicate that home care franchises are focused on selling franchise units in reasonable amounts while continuing to develop their existing franchise networks. This is a positive reflection on the home care franchise sector compared to some franchises that devote inordinate time and resources to selling new franchises.

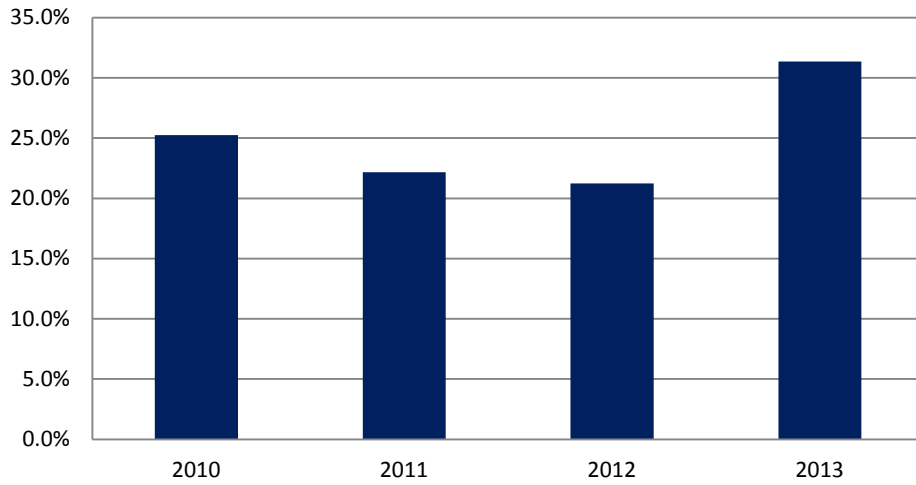
¹⁰ Source: FranchiseGrade.com

New Franchised Outlets Per Year



11

Percentage of Total 4-yr Growth



12

Over a period of four years the home care franchise industry has experienced net growth of 1,757 locations or a 47% increase.

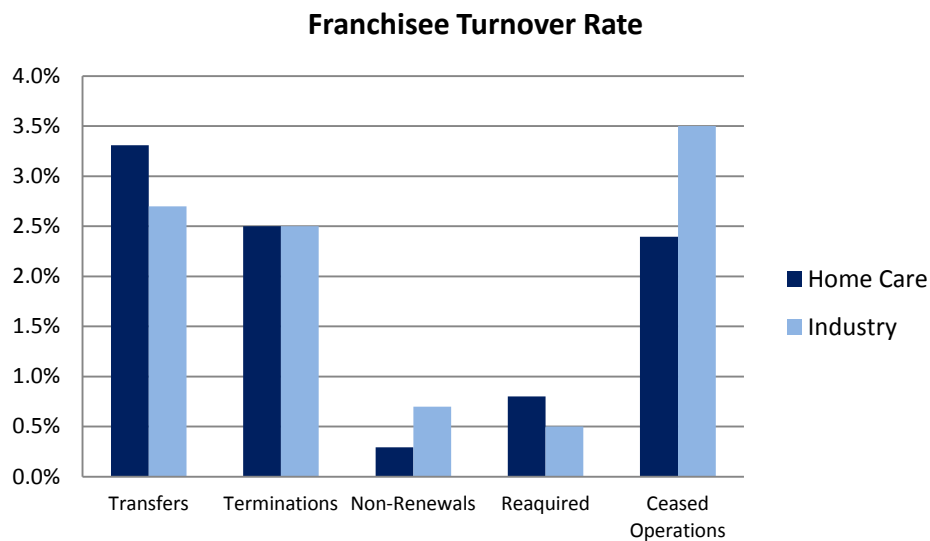
¹¹ Source: FranchiseGrade.com

¹² Source:FranchiseGrade.com

Franchisee Turnover Rate

The Franchisee Turnover Rate (FTR) is calculated by combining franchisee transfers, terminations, non-renewals, reacquisition and ceased operations for other reasons divided by the number of franchised outlets open. The FTR is calculated for an individual franchise system, franchise sector or other delineation.

The following charts compare the Franchisee Turnover Rate for home care franchises to the overall franchise industry. If one were to include terminations and ceased operations home care franchises totaled 4.9% compared to 6% for the franchise industry.



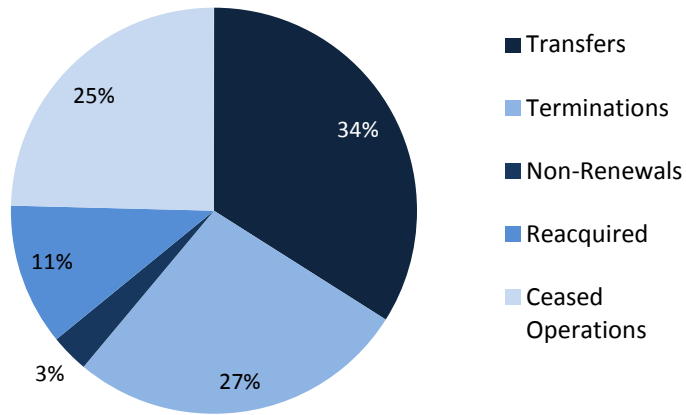
13

These charts compare the Franchise Turnover Rate for home care franchises to the franchise industry. In the case of terminations and ceased operations home care was 4.9% compared to 6% ¹⁴for the franchise industry.

¹³ Source: FranchiseGrade.com

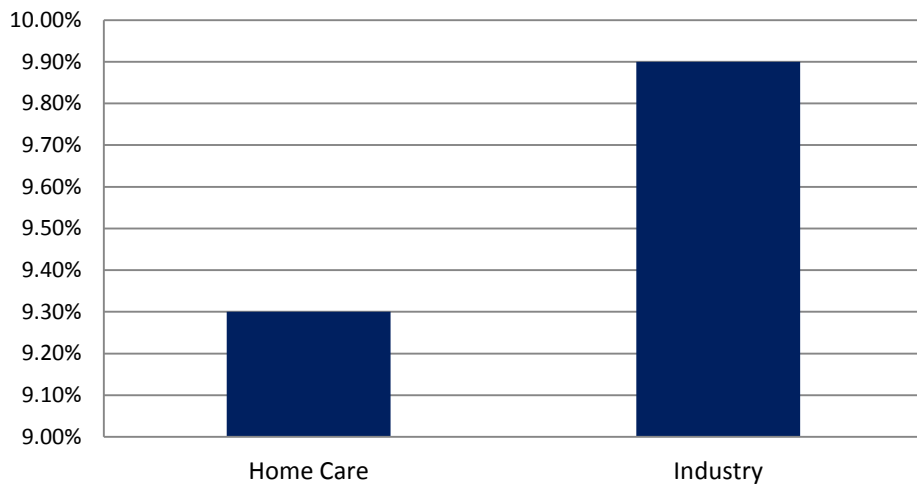
¹⁴ Source: FranchiseGrade.com

Franchisee Turnover Rate



15

Franchisee Turnover Rate



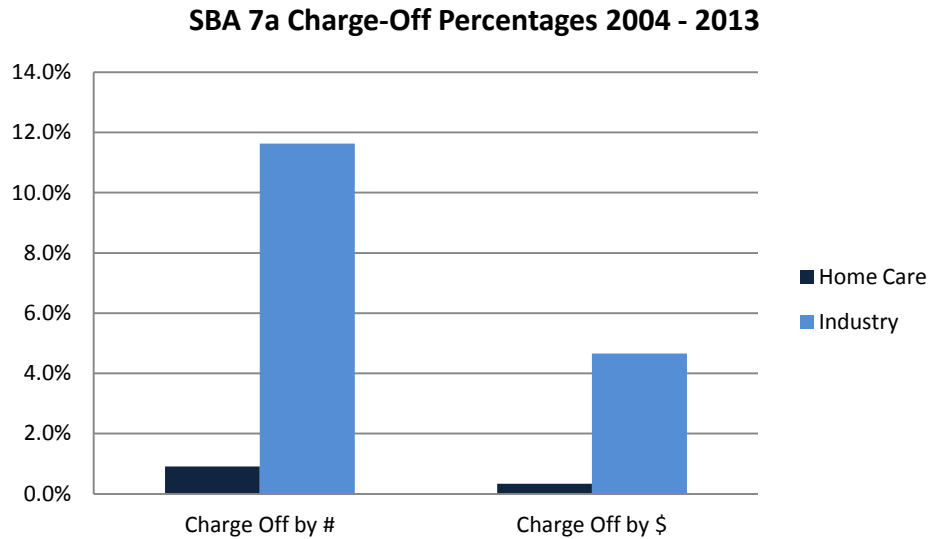
16

¹⁵ Source:FranchiseGrade.com

¹⁶ Source:FranchiseGrade.com

Financing & Lending Analysis

Information is based on an analysis of data sourced from the 2014 Coleman Report and actual franchise data of home care franchising.



17

The performance of the Home Care Franchise sector in terms of SBA financing is stellar. Out of 19 home care franchises that had franchisee SBA loans from 2010 to 2014 there were 16 that had no defaults. These results when benchmarked to the franchise industry performance are excellent.

¹⁷ Source: FranchiseGrade.com

2015 M&A Activity

2015 M&A activity for the Home care industry continues to thrive.

According to Paragon Ventures, a Healthcare Merger and Acquisition firm, “the Healthcare M&A environment in 2015 is anticipated to continue its strong growth trends. Strategic and private equity acquisition appetites for strong healthcare companies continue to grow and this offers tremendous liquidity opportunities for business owners. As strategic acquirers become increasingly aggressive in their pursuit of new sources of growth, the robust capital markets welcome the next wave of growth companies. Despite significant challenges in reimbursement and other operating factors, many healthcare providers continue to grow profitably by scaling their businesses. Interest is being further accelerated as buyers realize the opportunity presented by a growing number of healthcare beneficiaries. This includes both aging and the newly insured under the Affordable Care Act. When coupled with a consolidating supplier/provider base of companies and the acquisition opportunities become even more attractive.”

In a November, 2014 article in *Home Healthcare News*, Cassandra Dowell in “Mega Million Dollar Deals Color M&A Home Health Activity.” Dowell reports that “fifty-three home health and hospice transactions have taken place year-to-date, and even greater merger acquisition activity is on the horizon, says Irving Levin Associates in its recent report.

Types Of Home Care Agencies



The home care industry consists of agencies that provide both skilled and non-skilled services. However, since the majority of franchised companies in the home care sector provide companion or “sitter” services, they are not considered as traditional home care agencies. On the other hand, those franchises that provide medical or skilled nursing services are often lumped into the category Senior Care which is a misnomer.

Skilled Nursing Home Healthcare

- Provided by an agency that is licensed and usually Medicare certified. There are few franchised home care agencies that provide skilled home care, although several are now venturing into this area. To be Medicare certified a home care agency must meet specific federal guidelines regarding patient care. Home care professionals must strictly adhere to a physician approved plan of care that is deemed medically necessary. These agencies operate under the oversight of State and Federal regulators. Home care services include skilled nursing services, physical and occupational therapy, social work, and home health aides who are under professional

supervision. Individuals can have personal care needs even though skilled services are no longer required. As a result, some home health agencies offer private pay services so the agency can continue providing personal and custodial care.

Companion or Non-Skilled Home Care

- Includes services provided by certified home health aides and other non-medical caregivers. Home health aides typically work for certified home health or hospice agencies that receive government funding and must comply with regulations to receive their funding. They must work under the direct supervision of a medical professional, usually a nurse. These aides keep records of services performed and of clients' condition and progress. Aides also work with therapists and other medical staff. Non-skilled home care services such as personal care assistance, cooking and cleaning help is what most clients need in order to stay in their homes.

Private Duty Home Care and Senior Care Services

- Represents the majority of home care services provided by franchised locations, with services performed by homemakers and companions. Known as private pay home care or senior care, the services include housekeeping, companion care and other non-medical services. Personal and home care aides—also called homemakers, caregivers, companions, and personal attendants work independently, with only periodic visits by their supervisors. These caregivers may work with one or more clients per day.

Nursing Registries

- Minor components of the home care segment are nursing registries. These entities provide caregivers that may include nurses, therapists, nursing aides, homemakers, and companions. Under the registry model, payment is made by the family or trust attorney to the agency that places the caregiver. These caregivers are privately employed and managed by those who requested the services. The family or another party pays the caregiver; manages payroll taxes and other required withholdings

Licensure Requirements for Non-Medical Home Care by State¹⁸

License Required

ALASKA, COLORADO, CONNECTICUT, DELAWARE, DISTRICT OF COLUMBIA, FLORIDA, GEORGIA, ILLINOIS, INDIANA, LOUISIANA, MAINE, MARYLAND, MASSACHUSETTS , MINNESOTA, NEBRASKA, NEVADA, NEW HAMPSHIRE, NEW JERSEY, NEW YORK, NORTH CAROLINA, NORTH DAKOTA, OKLAHOMA, OREGON, PENNSYLVANIA, RHODE ISLAND, SOUTH CAROLINA, TENNESSEE, TEXAS, UTAH, VIRGINIA, WASHINGTON

Home Care Agency Accreditation

A number of home care agencies both independent and franchised are becoming accredited by national organizations. Having accreditation provides agencies credibility, quality care status and in some cases, fulfills a requirement of referral sources.

JCAHO is an independent, not-for-profit organization; The Joint Commission accredits and certifies more than 19,000 health care organizations and programs in the United States. Joint Commission accreditation and certification is recognized nationwide as a symbol of quality that reflects an organization's commitment to meeting certain performance standards.

CHAP is an independent, not-for-profit, accrediting body for community-based health care organizations. Created in 1965, CHAP was the first to recognize the need and value for accreditation in community-based care. CHAP is the oldest national, community-based accrediting body with more than 5,000 agencies currently accredited nationwide.

ACHC, the Accreditation Commission for Health Care, Inc. (ACHC), is a national organization developed by home care and alternate-site health care industry providers. Our board, advisors, surveyors and staff are committed to providing the industry with an accreditation program that helps organizations improve business operations, quality of patient care and services.

Copyright

Copyright © 2015 by FranchiseKnowHow,LLC

All rights reserved. No part of this publication may be reproduced, distributed, or transmitted in any form or by any means, including photocopying, recording, or other electronic or mechanical methods, without the prior written permission of the publisher, except in the case of brief quotations embodied in critical reviews and certain other noncommercial uses permitted by copyright law. For permission requests, contact FranchiseKnowHow,LLC at 631-246-5782