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Home Care Franchise Industry Update 2013
By Ed Teixeira
FranchiseKnowHow, LLC

About the Report
This report presents information and trends pertaining to the home care franchise industry for 2013. It includes data, information, and statistics from the following sources: U.S. Census Bureau Department of Aging, U.S. Department of Health and Human Services, The 2013 Private Duty Benchmarking Study, published by Home Care Pulse, National Association of Home Healthcare and Hospice, National Private Duty Association, Entrepreneur Magazine Franchise 500 2013 and websites. FKH has 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

FranchiseKnowHow, LLC
FranchiseKnowHow, LLC, publishes newsletters and articles for the franchise industry and consults home care agencies and other businesses considering franchising their business. The company also assists franchisors that look to export their franchise to other countries. Ed Teixeira, President of FranchiseKnowHow, LLC and the author of the report, has spent over 35 years in the franchise industry, including 15 years in the franchised home healthcare sector. He 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 franchised medical staffing company. During his tenure, Teixeira was directly responsible for executing international licensing agreements to include the first 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.
Report Summary

The franchise home care sector continues to be one of the fastest growing components of the franchise industry. In last year’s report 17 companies had a total of 5,300 locations. This year the same 17 franchised home care companies accounted for over 6,000 locations, an increase of over 15%.

The continuing growth of the home care industry results from the increased aging of the U.S. population and the resultant demand for services. In addition, home care services properly administered are less costly compared to the cost at long term care facilities. The 2013 Private Duty Benchmarking Study published by Home Care Pulse reported that the number of private duty home care agencies has grown by at least 104% since 2007. There are an estimated 15,100-17,700 private duties agencies in the United States of which over 6,000 are franchised. On the date of this report there were over 60 home care franchise companies in the United States operating over 6,000 locations. Approximately 90% of franchises offer and provide companion and homemaker services only. The remaining franchises or 10% of the total provide skilled nursing services.

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.

At the national level the implementation of The Affordable Care Act and certain issues related to the launch, including the operation of the website and individual health insurance policy cancellations, could postpone the full implementation of the ACA. The ACA contains regulations that when followed will increase the expenses of home care companies. It remains to be seen how this will play out.

The elimination of the minimum wage and overtime exemption for certain caregivers, which was included in the Fair Labor Standards Act since 1974 will take effect in 2015. Although some home care industry experts predict an increase in the cost of home care services it’s still too early to predict the full impact of this change. These subjects are covered in greater detail inside the report. Despite the emerging financial and regulatory changes, the size of the home care market, demand for home care services and the cost control benefits to private and public healthcare organizations and providers will continue to fuel the growth of the home care franchise industry.

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1 FranchiseKnowHow Survey
The Economics of Healthcare and Statistics on Aging

A major force behind the growth of home care services both skilled and non-skilled has been the cost of health care in the United States. Although there are other factors that drive the demand for home care services, the single most important factor is that home care services when available, cost less compared to placing someone in a hospital, nursing home or assisted living facility. When coupled with the increased aging of the U.S. population and related morbidity factors, home care services are a less costly and effective option for patients. Although a number of other countries provide skilled and non-skilled home care services to its citizens, the United States remains the leader in terms of variety of home care services and the scope and size of the home care industry.

The U.S. spends more on health care than other industrialized countries.

Per capita spending
(Percentage of GDP)

Australia: $3,800 (8.9%)
Canada: $4,522 (11.2%)
Denmark: $4,448 (10.9%)
France: $4,118 (11.6%)
Germany: $4,495 (11.3%)
Netherlands: $5,099 (11.9%)
New Zealand: $3,182 (10.3%)
Norway: $5,669 (9.3%)
Sweden: $3,925 (9.5%)
Switzerland: $5,643 (11.0%)
United Kingdom: $3,405 (9.4%)
United States: $8,508 (17.7%)

Notes: Data is from 2011 or nearest year. Netherlands spending measured as current expenditure. New Zealand numbers exclude investments. Source: OECD Health Data 2013

2 Source Huffington Post
1 ©FranchiseKnowHow, LLC All Rights Reserved
Key Factors Driving High Health Care Costs in the United States

- Aging U.S. population
- U.S. physicians costs per capita are approximately five times higher than comparable developed countries
- The cost of hospitalization continues to rise
- Unhealthy lifestyles in the U.S. lead to high rates on obesity
- The increased use of technology in the health care industry
- The prices that health care providers charge are much higher in the U.S. than in Europe
- The high level of per capita income in the U.S. is considered a factor leading to higher health care spending.

### Cost of Long Term Care in the U.S. 4

<table>
<thead>
<tr>
<th>Type of Care</th>
<th>Cost</th>
<th>Monthly</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nursing home: semi-private room</td>
<td>$205/day</td>
<td>$6,235</td>
</tr>
<tr>
<td>Nursing home: private room</td>
<td>$229/day</td>
<td>$6,870</td>
</tr>
<tr>
<td>Assisted living</td>
<td>N/A</td>
<td>$3,293</td>
</tr>
<tr>
<td>Home care: home health aide</td>
<td>$21/hour</td>
<td>$2,500</td>
</tr>
<tr>
<td>Home care: homemaker</td>
<td>$19/hour</td>
<td>$2,280</td>
</tr>
<tr>
<td>Adult day services</td>
<td>$67/day</td>
<td>$1,340</td>
</tr>
</tbody>
</table>

The reduced cost of home care services is a significant factor in its continuing growth.

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3 Aetna and Metropolitan Studies
4 U.S. Administration on Aging
The Numbers of Elderly Requiring Home Care Services is Increasing

As the U.S. population continues to age there will be an increase in the number of elderly who are vulnerable. This will include the oldest who are living alone, especially women; elderly racial minorities living alone and with no living children; and unmarried elderly persons with no living children or siblings. There are likely to be large increases in the number of persons with poor health and disabilities, including Alzheimer’s disease (and in persons requiring nursing home care and home care).

There will probably be a substantial increase in life expectancy, even at the older ages, but there are also likely to be large increases in the number of persons with poor health and disabilities, including Alzheimer’s disease (and in persons requiring nursing home care and home care), if only because of the massive population increases projected to occur. If disability ratios fall sharply or mortality rates at the higher age’s rise, or if both occur, the numbers of disabled persons could fall, but this now appears very unlikely.

Accompanying these general changes will be shifts in the racial/Hispanic composition of the elderly population. As compared with 15 percent today, in 2050, about one-third of the elderly will be other than non-Hispanic white. The rapid growth of these groups, in particular, will "color" the demand for special services. To the extent that these groups have distinctive social and economic characteristics (e.g., living arrangements, number of living children, income, education, and knowledge of English) that affect their risk of requiring formal and informal support, these services may require a different structure and orientation.

PROJECTED HEALTH STATUS OF PERSONS 65 AND OVER IN 2020

It’s predicated that there will be over 10 million cases of those over 65 with Activities of Daily Living (ADL) limitations by 2020. This will include almost 2 million who are expected to be severely disabled.

— National Center for Health Statistics

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The Administration on Aging reports that the older population—persons 65 years or older—numbered 39.6 million in 2009 (the latest year for which data is available). They represented 12.9% of the U.S. population, about one in every eight Americans. By 2030, there will be about 72.1 million older persons, more than twice their number.

![Projected Older Population for 2020](chart.png)

It’s been projected that there will be approximately 55 million people aged 65 and older by 2020 of which 16 million will be over 75 Years Old.

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6 National Aging Information Center
7 U.S. Census Bureau Administration on Aging
8 U.S. Census Bureau Administration on Aging
4 ©FranchiseKnowHow, LLC All Rights Reserved
### Aging Statistics by Leading States

**Top 10 States Projected Age 65 and over by 2020**

<table>
<thead>
<tr>
<th>State</th>
<th>Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>California</td>
<td>6,199,126</td>
</tr>
<tr>
<td>Florida</td>
<td>5,106,857</td>
</tr>
<tr>
<td>Texas</td>
<td>3,755,814</td>
</tr>
<tr>
<td>New York</td>
<td>3,250,020</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>2,403,118</td>
</tr>
<tr>
<td>Illinois</td>
<td>1,988,476</td>
</tr>
<tr>
<td>Ohio</td>
<td>1,974,464</td>
</tr>
<tr>
<td>Michigan</td>
<td>1,711,476</td>
</tr>
<tr>
<td>New Jersey</td>
<td>1,552,544</td>
</tr>
<tr>
<td>North Carolina</td>
<td>1,618,578</td>
</tr>
</tbody>
</table>

**Top 10 States in Population Age 75 and over by 2020**

<table>
<thead>
<tr>
<th>State</th>
<th>Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>California</td>
<td>1,968,956</td>
</tr>
<tr>
<td>Florida</td>
<td>1,634,715</td>
</tr>
<tr>
<td>New York</td>
<td>1,261,865</td>
</tr>
<tr>
<td>Texas</td>
<td>1,156,012</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>992,160</td>
</tr>
<tr>
<td>Ohio</td>
<td>769,535</td>
</tr>
<tr>
<td>Illinois</td>
<td>758,789</td>
</tr>
<tr>
<td>Michigan</td>
<td>627,321</td>
</tr>
<tr>
<td>New Jersey</td>
<td>566,497</td>
</tr>
<tr>
<td>Virginia</td>
<td>429,230</td>
</tr>
</tbody>
</table>

### Home Healthcare Industry Overview

9. U.S. Census Bureau Administration on Aging
10. U.S. Census Bureau Administration on Aging

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Approximately 12 million individuals currently receive care from more than 33,000 providers (for causes including acute illness, long-term health conditions, permanent disability, or terminal illness). In 2009, annual expenditures for home health care were projected to be $72.2 billion. “Home care organizations” include home health care agencies, home care aide organizations, and hospices. Some of these organizations are Medicare certified, which allows providers to bill Medicare for reimbursement. Agencies that are not Medicare certified cannot be reimbursed through Medicare. These statistics include private duty home care agencies which provide unskilled home care services.\(^\text{11}\)

Home care services are a key component of the U. S. healthcare system. As the cost of hospital, nursing homes and other types of institutional care has continued to increase, home care has become an effective and low cost alternative. At the same time, an aging U. S. population has increased the demand for home health services ranging from skilled nursing care to unskilled or companion care services. Over 130 million Americans are affected by a chronic disease, and this is expected to increase significantly as baby boomers reach an age where congestive heart failure, chronic obstructive pulmonary disease and coronary artery disease are more likely to be diagnosed. This puts pressure on an already burdened health care system. In terms of Medicare, 12% of the Medicare population accounts for 69% of the cost, with 96% of the Medicare expenditures spent on patients with more than one chronic disease. According to the Bureau of Labor and Statistics, home care services are projected to be the 4th fastest growing industry employers through 2018. This demand for staff will increase the leverage of nurses and physical therapists to command higher wages and benefits, which will put direct pressure on gross margins for all home care agencies. The Department of Health and Human Services reports that personal home care aides provide an estimated 70 to 80 percent of the paid hands-on long-term care and personal assistance to Americans who are elderly living with disabilities or other chronic conditions.\(^\text{12}\) Medicare may cover the cost of home healthcare services when a doctor orders care but does not cover homemaker or personal care services if it’s the only care required. In certain cases Medicaid may pay for some home care. However, the payment for non-skilled nursing services is typically paid by individuals, families, long term care insurance and trust funds.

\(^{11}\) National Association for Home Care and Hospice
\(^{12}\) US Dept of HHS

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The type of Home Care Agency is based upon the Services it provides

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 Home Care or 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.
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 homecare 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.
Five Things That Set Private Duty Home Care Agencies Apart

- Quality Caregivers
- Availability
- Client Satisfaction
- Customer Service
- Professionalism of Agency

13 Private Duty Benchmarking Study 2013

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Leading Payer Source by Percent for Private Duty Non-Skilled Home Care

Private Pay accounts for over 70% of the revenue source of private duty home care agencies

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14 Private Duty Benchmarking Study 2013
10 ©FranchiseKnowHow, LLC All Rights Reserved
Top Five Reasons Why Consumers Choose a Home Care Provider

- Reputation of Company
- Recommended by Family and Friends
- Referral
- Consumer Marketing
- Selected by Case Manager

15 Private Duty Benchmarking Study 2013
Home Care Regulations and Licensure

The home care industry is subject to Federal and State regulations. A number of individual States limit the number of Medicare Certified agencies that can perform Medicare reimbursed services under a process known as Certificates of Need. Managed care companies, hospitals and other referral sources, with very few exceptions, require that a HC agency be Medicare certified in order to receive patient referrals. Medicare certified agencies must also comply with Safe Harbor regulations that are meant to prevent fraud and abuse. These requirements under the administration of the OIG can result in severe penalties for non-compliance. An example of a violation is the payment for patient referrals either directly or indirectly. This action violates the anti-kickback provisions of the Safe Harbor regulations. There is a significant amount of paper work and documentation that Medicare agencies are required to maintain and submit. This documentation includes detailed questionnaires and reports that must be completed and maintained for each patient subject to Medicare reimbursement.

Under State licensure requirements and Medicare regulations a home care agency that provides skilled home care services must comply with specific staffing requirements. An example of the strict requirements for providing Medicare reimbursed home care services is this excerpt from the Medicare Conditions of Participation. “The skilled nursing and other therapeutic services furnished are under the supervision and direction of a physician or a registered nurse (who preferably has at least 1 year of nursing experience and is a public health nurse). This person, or similarly qualified alternate, is available at all times during operating hours and participates in all activities relevant to the professional services furnished, including the development of qualifications and the assignment of personnel.” These same requirements for skilled home care services are usually followed by the individual States.

Licensing a Non-Skilled Private Pay Franchise is Simpler

Due to the complexity of regulations, administration and reimbursement pertaining to skilled home care services; it’s not surprising that franchisors have chosen to adhere to the non-skilled home care segment. A number of States require a simple business license in order to perform this type of home care although some States require registration with a State health care agency. For example, Florida requires Companion and Sitter Services to register with the Florida Agency for Health Care Administration.

16 Sec. 484.14  Condition of participation: Organization, services, and administration
12 ©FranchiseKnowHow,LLC All Rights Reserved
Licensure Requirements for Non-Medical Home Care by State\(^{17}\)

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.

\textbf{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.

\textbf{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.

\textbf{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.

\(^{17}\) Private Duty Association Website

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Home Care Franchising Profile

The franchised home care sector has continued to experience significant growth. Among franchise categories home care franchising remains one of the top categories. During the past several years the franchise industry has experienced negative fallout from the U.S. recession and tight credit markets. According to a study released by IHS Global Insight for the International Franchise Association’s Education Foundation the number of franchise units was forecast to grow 1.5 percent in 2012 after 3 years of a decline in growth. Despite this trend home care franchises have continued strong growth. During this same period the home care franchise segment has continued to exhibit strong growth. Over the past 4 years the top 17 franchises have grown by an average of 12.75% per year. The chart below indicates the growth in locations from the years 2009 to 2012 of 44% which is outstanding growth.

In a survey[^18] that included 558 home care agency responses, 55% of the owners were women. Of the approximately sixty franchises in the United States that offer home care services, seventeen home care franchises have over 100 locations with a total of 6,000 locations.

![Percentage Growth in Total Locations of Top Franchisors](chart.png)

[^18]: Private Duty Benchmarking Study 2012
[^19]: Based upon17 franchisors with a minimum of 100 total locations

The Franchise home care sector has averaged over 12% growth per year for the past three years!
As home care franchising continues to grow in terms of franchisors and locations the competition for and within territories will intensify.
### Franchisors in 2013 with over 100 locations

<table>
<thead>
<tr>
<th>Franchisor</th>
<th>Total Locations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Home Instead</td>
<td>998</td>
</tr>
<tr>
<td>Comfort Keepers</td>
<td>770</td>
</tr>
<tr>
<td>Home Helpers</td>
<td>664</td>
</tr>
<tr>
<td>Visiting Angels</td>
<td>465</td>
</tr>
<tr>
<td>Interim Health Care</td>
<td>329</td>
</tr>
<tr>
<td>Seniors Helping Seniors</td>
<td>294</td>
</tr>
<tr>
<td>Right At Home</td>
<td>290</td>
</tr>
<tr>
<td>Senior Helpers</td>
<td>280</td>
</tr>
<tr>
<td>Accessible Home Health Care</td>
<td>276</td>
</tr>
<tr>
<td>Bright Star</td>
<td>261</td>
</tr>
<tr>
<td>Griswold Home Care</td>
<td>248</td>
</tr>
<tr>
<td>Synergy Home Care</td>
<td>235</td>
</tr>
<tr>
<td>Home Watch Caregivers</td>
<td>205</td>
</tr>
<tr>
<td>The Senior Choice</td>
<td>198</td>
</tr>
<tr>
<td>ComForCare</td>
<td>182</td>
</tr>
<tr>
<td>Always Best Care</td>
<td>180</td>
</tr>
<tr>
<td>Companion Connection Senior Care</td>
<td>134</td>
</tr>
<tr>
<td>Number of Franchisors</td>
<td>17</td>
</tr>
<tr>
<td><strong>Total Number of Locations</strong></td>
<td><strong>6,009</strong></td>
</tr>
</tbody>
</table>

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21 From direct calls to franchisors and franchisor websites

22 Includes domestic and foreign locations

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**International Home Care Franchisors**

A number of U.S. home care franchisors have successfully exported their franchise concept to other countries despite significant differences between the U.S and health care systems in other countries. These other countries have full access healthcare systems (“Socialized Medicine”) compared to the U.S. system. Despite these differences it’s interesting to see how many home care franchisors have successfully gone international. Of the top seventeen home care franchisors with a hundred locations or more:

- Four franchisors are in multiple countries ranging from five to fifteen
- Six are in Canada
- Of the remaining seven, four are actively seeking international licensees

There are a number of lessons we can learn from the success of today’s home care franchisors going international:

1. Determine if there is a market for the franchise products or services by utilizing a knowledgeable advisor thoroughly familiar with the target country. If possible try to find someone located in the target country.
2. Target a manageable foreign market at the beginning. A number of franchisors go to Canada or a small country in Central America first.
3. Consider unit franchises in the small country. The franchisees can be serviced from the U.S. corporate base.
4. Be flexible and willing to adapt the franchise program to meet differences in the foreign country. There may be certain attributes of the franchise operation that if properly tweaked would be successful in another country.
5. Target a limited number of specific countries that most closely match the market characteristics and demographics you are looking for. I can recall franchising in Indonesia which today still lacks many of the attributes necessary for a successful franchise concept.
6. Be willing to invest some time and money in order to visit and become familiar with the target countries.

A number of U.S. home care franchisors have been able to successfully franchise their concept in other countries. Despite the differences that exist between health care systems in the U.S. and other countries these franchisors were able to execute a successful strategy for going international.
The Components of Home Care Franchising Growth

There are three major components that continue to drive the growth of the home care franchising sector.

- The size of the market and demand for home care services continues to expand
- The franchise business model is fairly simple and requires a reasonable investment
- A home care franchise has broad appeal

“I would posit that the great majority will be private duty home care agencies, rather than Medicare or Medicaid-reimbursed ones,” Val Halamandaris, president of the National Association for Home Care and Hospice (NAHC) predicts. “That’s the biggest growth trend we’ve seen.”

The Home Care Services Market

In order for a franchise to be successful there needs to be a sustainable market that franchisees can tap into. The market ought to be 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. At least 70 percent of people older than 65 will require home care services at some point in their lives, however, people of any age may need long-term care. Multiple factors increase the risk of needing long-term care, age is a key factor since the longer a person lives, the greater the risk of disability. According to the Bureau of Labor Statistics, home care services are projected to be the 4th fastest growing employers through 2018. Franchisors that provide skilled nursing services will have the advantage of being able to tap into the entire home care market in addition to those patients 65 and older.

Franchise Business Model is Fairly Simple

Franchisors have developed business models with operational and financial software that enables 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. This combination of a rather straightforward business model coupled with the
non-skilled home care services requires the franchisee to possess basic business skills. Most home care franchisors provide proprietary software for their franchisees that includes caregiver scheduling, management and financial control systems. Some like Home Helpers utilize an Intranet program for franchisee Q&A, tips and collaboration with other franchise owners. The structure and tools provided to home care franchisees by a franchisor adds to the attractiveness of a home care franchise.

A Home Care Franchise has Broad Appeal

For individuals interested in owning a franchise, the home care sector offers a franchise opportunity for a reasonable investment. Franchise ownership is not dominated by either men or women and is attractive to married couples. Almost 50% of home care franchises allow the franchisee to operate from a home based office. The site requirements for those home care franchises that do require a separate business location are such that the rental costs are reasonable. The investment in a home care franchise ranges from a low of $50,000 to a high of $180,000. The royalty fee for home care franchises, with a few exceptions, is 5% or lower. A home care franchise is an attractive business for a broad universe of people with the proper qualifications. Women interested in owning their own business often find a home care franchise a good business fit. Business people, retired executives, teachers and seniors who are seeking a franchise with a straightforward business format find home care appealing. For certain individuals, the satisfaction gained from providing home care services to others is an additional motivating factor.

A number of home care franchises require an investment of only $66,000 including the franchise fee

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The Home Care Regulatory Environment

There are several recent regulatory actions that will have significant impact on home care agencies both independent and franchised. The two most noteworthy ones will be the implementation of the Affordable Care Act and the end of the exemption for certain home cares workers, known as The Final Rule. These are the most significant changes at the national level. On a state level, California has introduced new regulatory requirements for home care agencies, which are detailed below.

The Affordable Care Act

Although recent issues surrounding the ACA could delay full implementation and may result in changes to the program, it’s acceptable to assume that the ACA will be a boost to home healthcare agency revenues that provide skilled nursing services, due in great part to financial pressures being placed upon hospitals to control readmissions. Although margins may be reduced due to lower Medicare reimbursements, some health care experts believe that the implementation of the ACA will cause health care providers ranging from hospitals to home care agencies to work more closely together.

“The incentive in the Affordable Care Act requires provider groups to work together, whereas in the past you had a silo mentality, with nursing homes here, hospitals there, home health agencies over there, and ‘ne’er the twain shall meet,’” says Val Halamandaris, president of the National Association for Home Care and Hospice (NAHC). There is reason to believe that franchised home care companies could participate in this revised continuum of care. There are certain home care franchisors that have moved to providing skilled nursing services, with some allowing their franchisees to become Medicare certified. When it comes to the ACA one thing is certain, it will alter the delivery of health care services in U.S. to what degree remains to be seen.

Of immediate concern to the franchise industry is the 30 hour employee threshold, which requires employers with 50 or more employees to provide health insurance or pay a fine.

Following is a report on an effort to address this issue:

25 “IFA is working on ways to improve the Affordable Care Act through legislation, and has made significant progress in pushing for reform of the law’s employer mandate. Recently, Sen. Joe Manchin, D-W.Va., agreed to co-sponsor S. 1188, the Forty Hours is Full Time Act of 2013, a bipartisan bill that would redefine "full-time employee" in the ACA as one working at least 40 hours per week, allowing franchise small-businesses owners to continue to manage their workforces based on the same work weeks used for wage and hour laws. Go online to learn more about this important issue.”

25 IFA Smartbrief
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A recent blog by Steven Tweed, in Private Duty Today, entitled *Slowing the Growth of Private Duty Home Care* included the results of a survey of private duty home care agencies and the impact of the ACA. Employers with 50 or more full-time or full-time equivalent employees will be required to provide “minimum essential” health care coverage for their full-time employees or pay an annual penalty beginning in 2014.

- Don’t know - 52.6%
- Keep majority of employees under 30 hours - 19.9%
- Provide required health insurance - 18.7%
- Always operate with less than 50 FTEs - 17.4%
- Pay the penalty - 9.4%
- Drop my group health insurance and pay the penalty - 1.9%

**The Department of Labor “Final Rule” Ends Domestic Service Exemption**

In 2015 the DOL will implement its Final Rule. It requires that certain home care workers currently exempted from receiving minimum wage and overtime pay receive these benefits. In 1974, Congress extended the protections of the Fair Labor Standards Act to “domestic service” employees, but exempted from the Act’s minimum wage and overtime provisions domestic service employees who provide “companionship services” to elderly people or people with illnesses, injuries, or disabilities that require assistance in caring for themselves. It also exempted from the Act’s overtime provision domestic service employees who reside in the household in which they provide services. On September 17, of this year a major change took place. The Department of Labor (“DOL”) released its Final Rule extending FLSA minimum wage and overtime protections to the nearly two million workers who provide home care to seniors and individuals that require care. The final rule is effective January 1, 2015.

The major effect of this Final Rule is that more domestic service workers will be protected by the FLSA’s minimum wage and overtime provisions. The DOL Final Rule introduces a number of changes regarding caregivers. The Department’s Final Rule makes two significant changes: (1) the tasks that comprise exempt "companionship services" are more narrowly defined; and (2) the exemptions for companionship services and live-in domestic service employees may only be claimed by the individual, family, or household using the services rather than third party employers such as home health care agencies. The Final Rule also revises the recordkeeping requirements for employers of live-in domestic service employees.

Emma Dickinson, President of Home Helpers, one of the largest franchised home care companies, believes that there will be continuing discussions about certain aspects of the new regulations before implementation but that the basic provisions will remain in place. The main area of concern is the overtime piece especially regarding live-ins. From a client perspective Emma predicts that since many
agencies will reduce the hours of certain caregivers in order to reduce OT the agencies will need to recruit more caregivers. This would result in a client going from three caregivers to five or six for some clients. The net result could be a lack of consistency in care.

David Goodman, President of Companion Connection Senior Services feels that the impact of the new regulations will be primarily from the overtime provision. He believes it’s a manageable issue and that live-in services will receive the major impact. For those franchisors and franchisees that operate in states that don’t recognize the Domestic Worker Exemption their caregivers already receive the minimum wage and many are paid overtime, thus there will be no change to agencies in those states. {There are currently sixteen states (California, Colorado, Hawaii, Illinois, Maine, Maryland, Massachusetts, Michigan, Minnesota, Montana, Nevada, New Jersey, New York, Pennsylvania, Washington, and Wisconsin) that already extend minimum wage and overtime protection to home healthcare workers, and five states (Arizona, Nebraska, North Dakota, Ohio, and South Dakota) and Washington DC that extend minimum-wage, but not overtime, protection.}

There will be an increase in part time caregivers and this could disrupt the consistency of care provided to clients. This action would mirror what has happened with the Affordable Care Act.

Since the DOL Final Rule will not be implemented until 2015 there can be ample time for home care agencies to make adjustments and adapt where necessary to these changes. However, the fact remains that home care clients will continue to require quality home care services and this will not change.

California Enacts the Home Care Services Consumer Protection Act of 2013

The State of California has enacted new home care legislation. The Home Care Services Consumer Protection Act of 2013 was signed by Governor Jerry Brown and will take effect in 2016. The new regulations focuses on custodial care which refers to assistance with activities of daily living including bathing, getting dressed, toilet uses and similar activities.

The legislation requires home health care agencies to conduct background checks on home care workers and provide a minimum of five hours of training to new hires. Agencies will be required to obtain a license from the state that will certify their complete compliance with these standards.
M&A Activity

Health care reform is continuing to be a factor in home health care M&A activity. The impact is more pronounced on those agencies and companies where the bulk of revenues are based upon government reimbursement. Private duty and senior care agencies which receive the majority of their payments via private pay are fairly immune to regulatory actions especially from the Affordable Care Act. The franchise home care sector remains a target for investment and M&A opportunities. Several private equity firms have investments in franchised home care agencies. This includes franchises that provide non-skilled and skilled nursing services.

When firms look to invest in a home care franchise the determining factors are the same as other M&A and private equity investment decisions:

- Rapidly Growing Market
- Product or Service Need
- Positive cash flows and stable operating margins
- A strong growth story
- Basic management team in place with minimal changes needed

An example of the increased interest in acquiring or investing in franchise companies is reflected in a conference held in NYC last year. The conference announcement read in part: “With so many private equity firms stepping up their interest in franchises, it’s a great time for you to step into The Capital Roundtable’s ENCORE conference on Private Equity Investing in Franchise Companies, being held in New York City. Today, few private equity deals are more consistently attractive than franchise companies. The industry has a superb cash flow profile... the long-term agreements that franchisees sign can assure long-term fee income... and good concepts can produce a robust demand for new franchise formation. So what was once an industry off of investors’ radars has become quite alluring.”

The following represents comments from home care industry experts regarding the prognosis for future home care investment activity:

26 “The incentive in the Affordable Care Act requires provider groups to work together, whereas in the past you had a silo mentality, with nursing homes here, hospitals there, home health agencies over there, and ‘ne’er the twain shall meet,” says Val Halamandaris, president of the National Association for Home Care and Hospice (NAHC).

27 Don Cummins, president of the Fort Myers, Fla.-based Stoneridge Partners. “The public companies are pretty well-stepped out of doing acquisitions,” says Cummins. The total current annual revenue run rate for the four largest—Amedisys, LHC Group, Gentiva, and Almost Family—is about $4.2 billion, and sales

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have been flat over the last year with stock prices decreasing in the last few months, he says. Senior living companies, hospitals, and larger home health care platforms are picking up the slack, though, but despite continued consolidation—specifically the “little fish” agencies being “eaten by the big fish” companies, according to Cummins—the number of home health agencies will continue to grow.

28 In response: “I would posit that the great majority will be private duty home care agencies, rather than Medicare or Medicaid-reimbursed ones,” Halamandaris predicts. “That’s the biggest growth trend we’ve seen.”

According to The Braff Group a healthcare investment firm: “The data shows that the number of acquisitions of private duty home care businesses dropped off dramatically in the 2nd quarter of 2012, and it was already down significantly from highs in the first quarter of 2010 and the 2nd quarter of 2008.”

Scott Osborne of Osborne Home Care Group in St. Louis, Missouri states: “Home care firms that rely on the Government have seen a slight dip in business valuations. Private duty non-medical home care has seen an uptick in valuations as buyer demand grows.”

From Marci Heydt, Home Health Line: “Many private duty home care providers have resumed growth and profitability in 2012, and the M&A market may begin to thaw if the industry continues to improve.”

29 Cory Mertz, a partner at Stoneridge Partners “It’s a very active market right now in home health, I believe we’re going to continue seeing robust M&A activity for 2013 and possibly beyond.”

A Bright Future for Home Care Franchising

Home care franchising remains healthy and poised for continued growth. The number of seniors with Alzheimer’s and other diseases that negatively impact activities of daily living coupled with the high cost of institutional care make home care an attractive cost saving option. The private pay home care market is free from the potential reimbursement issues associated with Medicare and Medicaid. Recruiting caregivers will become somewhat challenging as home care services increase and more agencies recruit. There is the possibility that some franchisors will consider the skilled nursing sector, however, without Medicare Certification obtaining patient referrals from insurance providers can be difficult.

As recruitment, operating costs and reduced margins become more of a factor in the immediate future, there should be some consolidation in the franchise home care sector. For small sized home care franchises, there will continue to be opportunities so long as they can effectively compete from a quality and service standpoint. The Affordable Care Act has clouded the picture of what health care will look like in the years ahead. Until the picture becomes clearer, home care franchisors should stick to what they do best.

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**Resources**

The following are resources and links that provide information pertaining to the healthcare and home care industry:

Home Care Pulse is the home care industry’s leading research and quality management firm and author of the annual Private Duty Benchmarking Study. The Study now in its 4th edition features over 165 pages of the most comprehensive financial, sales & marketing, operations and caregiver recruitment & retention benchmarks for the home care industry. For more information on the private duty benchmarking study please visit [www.privatedutybenchmarking.com](http://www.privatedutybenchmarking.com).

- U.S. Census Bureau [http://www.census.gov/](http://www.census.gov/)