

VIRGINIA NURSING HOME SALES

BIG CHANGES IN PAST 12 MONTHS

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RECENT HISTORY

- > Over Half of Virginia's approximately 270 Skilled Nursing Facilities have changed hands in the past five years.
- > Many of the transactions have come from single or small group facility sellers exiting the space.
- > These are often "Mom and Pop" sellers, who both own and operate their facility.
- > REITs are divesting or leasing out.
- > Hospital systems have also sold facilities in the recent past.
- > Finally, there has been at least one larger Virginia based company that sold its portfolio.

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SEVERAL BOOM YEARS



- > Highwater mark in 2019 with 453 publicly announced transactions closing.
- > 2021 was a close second with 449 publicly announced transactions closing.
- > 2022 should break all records with 500+ deals closing.

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TRANSACTIONAL SLOW-DOWN



- > **“Bridge Loan Activity Dries Up with M&A: Lenders Are Pulling Back from Short-Term Financing”** -The Senior Care Investor, Vol. 34, 11.
- > Debt brokers report that there is a shortage of liquidity with syndicators.
- > Loan to value percentages are going down.

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PRACTICAL IMPLICATIONS



- > Certain lenders are pausing participation in the asset class.
- > Term sheets are taking longer.
- > Nascent market participants are having difficulty getting signed term sheets.
 - LOIs are getting signed but deals are terminating because of a lack of financing.
- > **Re-trades are becoming the norm.**
- > Seller financing is becoming more prevalent.
- > Buyers are pivoting to merely being operators.
- > Deals are hitting pre-closing turbulence with the failure of syndication partners.

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WHY ARE SELLERS GETTING OUT?



- > Price per bed is at an all-time high.
 - Quantity is regulated by COPN
 - Nascent market participants – a lot of new groups want to get into Virginia
- > Regulatory hurdles grow more burdensome.
- > Industry problems (e.g., staffing, wage issues, vaccine mandates).
- > Concern over legislative changes.
- > Hospital Systems want to reduce risk.

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WHY ARE BUYERS GETTING IN?

- > New participants in the market within the past ten (10) years.
- > Buyers are often purchasing multiple facilities in the state.
- > Multiple groups headquartered outside of Virginia (e.g. Lakewood, NJ, Skokie, IL)
- > Bridge to HUD Refinance (non-recourse) Model still successful.
- > Economies of Scale.
- > Management Companies and ancillary service providers.

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HOW TO GET TO MARKET

- > Traditional Brokerage Firms
 - > Pros: Market Experience, Strong Ability to Disseminate.
 - Cons: Cost, Value / Necessity.
- > Select Pool of Qualified Bidders
 - Pros: Control of the Process, Certainty of Buyer's Ability to Transact.
 - Cons: Artificially limiting the market.
- > Select Single Buyer with "Buy It Now" Price
 - Pros: Efficiency, Better ability to negotiate deal terms.
 - Cons: Possibility of not identifying the highest Buyer.

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DOCUMENTING THE TRANSACTION



- > Letter of Intent
 - Generally Non-Binding
 - Lays out key terms of the Transaction
 - Price
 - Due Diligence Period
 - Closing
 - Binding with regarding to Exclusivity

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KEY DEAL DOCUMENTS



- | | |
|---|--|
| <ul style="list-style-type: none"> > Asset Purchase Agreement (APA) or Purchase and Sale Agreement (PSA) <ul style="list-style-type: none"> – Sale of the Assets (Real Property, Personal Property) – Deposits – Due Diligence – Title and Survey – Reps and Warranties – Indemnification – Closing Mechanics | <ul style="list-style-type: none"> > Operations Transfer Agreement (OTA) <ul style="list-style-type: none"> – Records / EMR – Patient Trust Accounts – Operational Reps and Warranties – Vendor Contracts – Payor Contracts – Licensure – AR / AP – Employees |
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PROCESS

- > Letter of Intent – Days after Seller selects Buyer.
- > Access Agreement – (if needed) with Letter of Intent.
- > PSA and OTA – Ideally within one month of the date of the Letter of Intent. Often longer.
- > Due Diligence – 30-60 Days.
- > Closing – 30-60 Days After Due Diligence.

- > Date of Notifying Staff – Variable.
- > Date of Notifying Residents – Variable.
- > Date of Notifying Vendors – Variable.

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ADDITIONAL STEPS FOR BUYER

- > Licensure – At least 30 days prior to Closing.
- > COPN Notification – At least 30 days prior to Closing.
- > *Certification, Medicare and Medicaid Enrollment – Post Closing.*
- > Term Loan – 30-60 days of negotiation.
- > AR / Working Capital Loan – 30-60 days of negotiation / preparation.

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COMMON PRE-CLOSING ISSUES

- > Will Buyer purchase the Accounts Receivable?
- > Will Seller pay out the PTO or offer a credit?
- > What key staff will remain?
- > Staff retention through closing.
- > Which vendor contracts will be assumed? What are the fees and penalties on those contracts that will not be assumed?
- > Timing for licensure and financing.
- > Liens and payoff letters.

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