

The first meeting: four series and one division

Chapters 2 and 6. Everything in the first half of the book falls out of four monthly series every home already keeps. If a vendor cannot produce them, that is itself the finding.

Home		Operator	
Reviewer		Date	

Ask for, twelve months by month	What it produces	Received ?	Note
Fee income	The numerator of the fee per occupied bed-week		
Occupied beds (average, not month end)	The denominator, and the occupancy trajectory		
Admissions	The true length of stay, by Little's law		
Residents by funding source at each month end	The mix of the beds, and how fast it drifts		

The single most useful diagnostic: average occupied beds ÷ admissions a month = length of stay in months. This home: $62.7 \div 2.79 = 22.5$ months.

	This home (book)	Target
Average occupied beds, twelve months	62.7	
Admissions a month, twelve-month average	2.79	
Length of stay, months (row 1 / row 2)	22.5	
Length of stay the home quotes	(usually computed over leavers: shorter)	
Admissions a year / occupied beds = turnover	53 per cent	

The figure quoted	Taken over	The population that matters	Here
Average weekly fee	Admissions, or the rate card	Occupied bed-weeks, twelve months	£1,546 against £1,508
Occupancy	A point in time, often the best month	The twelve-month average and its trajectory	
Average length of stay	Residents who have left	Everyone, including those still in place	22.5 months by the identity
Staff cost per bed	Registered beds	Occupied beds: 11.7 per cent fewer	£517 a bed on property
EBITDARM margin	The last twelve months	Adjusted for one-offs and for where the mix is heading	

A home that does not know its own fee per occupied bed-week does not know whether its margin is a mix effect or an operating achievement, and neither will the buyer.

Occupancy is a flow

Chapters 2 and 18. Occupied beds = admissions a month × average length of stay in months, exactly, whatever the shape of the stay. Fill in the survival curve from twelve months of admissions and discharges.

Home		Operator	
Reviewer		Date	

Month of stay	Still in the home, this home (book)	Still in the home, yours	Left by now, yours
0	100.0%		
1	88.5%		
3	79.0%		
6	69.9%		
12	54.7%		
18	42.8%		
24	33.5%		
36	20.5%		
48	12.6%		
60	7.7%		

	This home (book)	Yours
Median stay: half have left by	14.2 months	
Mean stay: the figure that fills the beds	22.5 months	
Share leaving within three months	21 per cent	
Admissions a month needed to hold today's occupancy, for ever	2.79	
Resident turnover a year	53 per cent	
A shorter-stay home at the same occupancy: admissions a month / turnover	5.58 / 107 per cent (the first edition printed 96)	

Item	Answer	Evidence / note
Underwriting the occupancy		
The twelve-month average of occupied beds, not the current figure or the best month		
The trajectory: rising or falling, and over how many months		
Admissions alongside: has the implied length of stay been lengthening? (a payor-mix problem in the making, Chapter 5)		
A new home: 70 per cent in month 19, 80 in month 28, 85 in month 38 on this home. "Stabilised in eighteen months" underwrites 69.2 per cent		
Stress: one point of occupancy = 0.70 residents = £31,565 of EBITDARM here (elasticity 1.85x)		

Who pays, and when the capital runs out

Chapters 3 and 5. The mix of the beds is always worse than the mix of the admissions. Months to conversion = (capital – £23,250) ÷ ((weekly fee – own income) × 4.3482).

Home		Operator	
Reviewer		Date	

Decile of capital	Book: capital	Book: months to conversion	Yours: capital	Yours: months	Still in the home then?
1	£48,000	4.4			
2	£76,000	9.5			
3	£105,000	14.7			
4	£138,000	20.6			
5	£172,000	26.7 (29.7% still there)			
6	£210,000	33.5			
7	£255,000	41.6			
8	£312,000	51.8			
9	£400,000	67.6			
10	£620,000	107.1			

Book: £1,638 a week, £356 of own income, £5,574 a month of drawdown. 55 per cent self-funded on admission becomes 36.4 per cent of the beds: 18.6 points. 30 per cent of self-funders live to convert; the average pays her own way for 14.9 months. England only: other thresholds apply in Wales and Scotland.

Payor	Weekly rate	Who sets it	Share of beds	Share of revenue
Self-funding				
Local authority				
Third-party top-up (38% of council residents here)				
NHS-funded nursing contribution, inside both rates				
Continuing healthcare (ask for it separately)				

Item	Answer	Evidence / note
What to ask a vendor		
Private-pay share of OCCUPIED BED-WEEKS in the last twelve months, not of admissions		
Conversions from private to council in the last twelve months, and the revenue effect (zero means new, very wealthy, or nobody is tracking it)		
Average length of stay split by funding source on admission		
Share of council residents with a top-up, and how many top-ups lapsed last year		

The calendar, and the average fee

Chapters 1 and 6. Small conventions, large values: at an 11.00x multiple and a 31.0 per cent margin, a pound of revenue that drops through is worth £11 and a one per cent revenue error is a 3.2 per cent value error.

Home		Operator	
Reviewer		Date	

Item	Answer	Evidence / note
Five places the calendar goes wrong		
Weekly fee × 52 instead of 52.1786: 0.34 per cent of revenue, £16,883 a year and £185,717 of value here		
A month as four weeks (8.01 per cent light), common in the cash-flow forecast the covenant is tested on		
A month as thirty days instead of 30.4375		
Occupancy measured at month end rather than averaged		
A fee increase dated but not pro-rated: an April rise earns 75 per cent of a January year		

The presentation premium	Weighted by admissions	Weighted by occupied bed	Yours: admissions	Yours: beds
Self-funding share	55.0%	36.4%		
Blended weekly fee	£1,546	£1,508		
Annual revenue (× occupied × 52.1786)	£5,057,108	£4,933,314		
Difference a year	£123,793			
At the multiple	about £1.4 million			

An error of one per cent in	Moves EBITDARM by	Moves value by	Yours
Revenue	£49,333	£542,665	
The staff bill	£27,530	£302,834	
Costs other than staff	£6,515	£71,664	

The fee a buyer should model: fee income ÷ occupied bed-weeks, month by month, twelve months. Rate card: _____
 Admissions-weighted: _____ Bed-weighted: _____

From care hours to a loaded staff cost

Chapters 7 and 8. Build the largest line from hours, not from a percentage, and charge employer costs per contract, not per full-time equivalent.

Home		Operator	
Reviewer		Date	

Line	This home (book)	Yours
Occupied beds (not registered)	62.7	
Care hours per resident per day (of which nurse)	4.55 (0.72)	
Care hours a year = beds × hours × 365.25	104,166	
Contracted year: 37.5 × 52.1786	1,957	
Less annual leave (5.6 weeks) and sickness and training	–210 and –53	
Hours on the floor per full-time equivalent	1,694	
Care full-time equivalents (hours ÷ hours on the floor)	61.5	
The naive count (hours ÷ contracted year)	53.2: 15.5 per cent short	
Heads per full-time equivalent	1.45	
Heads employed	about 115	
Care gross pay (contracted hours, not hours delivered)	£1,753,692	
Non-care establishment, gross	£567,500 (19.6 FTE)	

Employer NI and pension, before the allowance	Current: 15% above £5,000	Previous: 13.8% above £9,100	Yours
Per head (one threshold per contract)	£305,443	£219,541	
Per full-time equivalent	£338,156	£270,269	
Error from modelling in FTE	£32,713	£50,728	
Employment Allowance, once	£10,500	£5,000	
Employer costs after the allowance	£294,943	£214,541	

The reform cost £80,402, 1.63 per cent of revenue; the FTE error moved by £18,015, 22 per cent of it. Pension: 3 per cent above £6,240, enrolment only above £10,000 — more contracts means more NI thresholds but fewer people enrolled. Price every clause of the instrument, including the offsetting one.

Agency, recruitment and the rest of the cost base

Chapters 9 and 10. Agency is a symptom of recruitment and retention, and it is correlated with the rating risk of Chapter 19.

Home		Operator	
Reviewer		Date	

Month	Care hours	Agency hours	Agency share	Agency cost	Vacancies	Leavers	Managers in post

Book: 3.2 per cent of hours at a 55 per cent premium, £76,548, 2.8 per cent of staff cost; an agency hour costs about 134 per cent of a loaded internal hour. Back to 8.0 per cent of hours: –£16,184 of EBITDARM, cover 1.80x to 1.78x, with nothing else going wrong. Recruitment and training: £60,351, 2.6 per cent of gross pay.

Cost other than staff	Book, a year	Per REGISTERED bed	Yours	What moves it, and when
Property, utilities, rates, insurance	£309,890	£4,427		Insurance: sector claims. Rates: revaluation cycle
of which energy	£111,560	£1,594		Contract renewal date and forward price
Catering	£156,100	£2,230		Food inflation, not passable to council residents
Consumables, care supplies, systems, professional fees	£185,500	£2,650		
Total	£651,490	£9,307		

Item	Answer	Evidence / note
Capital expenditure: outside EBITDARM by construction		
Asset register and building survey: wet rooms, nurse call, flooring, roof, boilers, beds, hoists		
Last five years of spend and next five years of plan		
Who carries it under the lease, and whether any cover ratio measures it		

Reading a trading pack

Chapter 11. Three measures, three conversations. The lender covers on EBITDARM; the operator lives on EBITDAR; after rent, what remains is EBITDA.

Home		Operator	
Reviewer		Date	

	This home (book)	Target	Question
Revenue	£4,933,314		Occupied bed-weeks × fee?
EBITDARM (before rent and management charge)	£1,528,790 (31.0%)		What charge has been added back, at what rate?
Management charge, and its basis	£246,666 (5%)		3% or 7% moves EBITDARM by 12.9% here
EBITDAR	£1,282,124		
Rent	£849,328		Does the home pay rent at all?
EBITDA after rent	£432,797 (8.8%)		
Cover on EBITDARM	1.80x		Which numerator?
Cover on EBITDAR	1.51x		Difference must equal charge ÷ rent: 0.29x

Test: cover on EBITDARM – cover on EBITDAR = management charge ÷ rent, exactly. _____ – _____ = _____ ÷ _____ ?
If not, one of the three numbers is not what it says it is.

Common add-back	The question	Amount	Accepted?
Owner's remuneration above market	What would a registered manager and a deputy cost? About £108,000 for the two		
Legal and professional one-offs	How many years in a row has there been a one-off?		
Agency catch-up during a recruitment drive	Is the drive finished and the rota full? A return to 8% of hours costs £16,184		
A bad debt write-back	Whose debt, and is the same commissioner still placing?		
Energy at a contracted rate about to end	When does the contract expire, and what is the forward price?		
A pro-forma fee increase not yet implemented	8 per cent of a private increase comes back through the mix: allowed for?		

The bridge, in pounds per resident

Chapter 12. Do not decompose a margin difference into margin points: quotients do not add. Convert both sides to pounds per occupied resident and the three differences sum exactly to the fourth.

Home		Operator	
Reviewer		Date	

Per occupied resident, a year	This home (book)	Panel (book)	Difference	Target	Panel	Difference
Revenue	£78,707	£69,245	£9,462			
Staff	−£43,923	−£37,877	−£6,046			
Costs other than staff	−£10,394	−£9,833	−£561			
EBITDARM	£24,391	£21,535	£2,855			

Panel revenue per resident = the panel's staff cost per resident ÷ its staff cost share (£37,877 ÷ 54.7 per cent); its EBITDARM = that revenue × its published margin (31.1 per cent). Nothing is added: the panel's own identity turned round.

Each difference	Catchment	Case mix	Management achievement	Evidence
Revenue per resident				
Staff per resident				
Costs other than staff				

Item	Answer	Evidence / note
Reading it		
Only a management achievement is transferable to a new owner, and only that should be paid for		
Here the whole £2,855 advantage is revenue (a catchment paying 13.7 per cent more per resident): a premium to the sector buys postcodes		
Show the line that does not agree: the panel's average fee (£1,298) against this home's (£1,508), and why		

The lease: the identity and the terms that matter

Chapters 13 and 14. Rent = EBITDARM ÷ cover, and cover × yield × multiple = 1. Any two of the three fix the third.

Home		Operator	
Reviewer		Date	

Multiple	5.0%	5.5%	6.0%	6.5%	7.0%
9.0x	2.22x	2.02x	1.85x	1.71x	1.59x
10.0x	2.00x	1.82x	1.67x	1.54x	1.43x
11.0x	1.82x	1.65x	1.52x	1.40x	1.30x
12.0x	1.67x	1.52x	1.39x	1.28x	1.19x
13.0x	1.54x	1.40x	1.28x	1.18x	1.10x

Implied rent cover for each trade multiple and investment yield.

The three ratios in the paper	Quoted	Implied by the other two
Multiple of EBITDARM	11.00x	9.26x at 1.80x and 6.0%
Investment yield on the rent	6.0%	5.05% at 11.00x and 1.80x
Rent cover	1.80x	1.52x at 11.00x and 6.0%
Product (should be 1.00)	1.19	

Term	Why it matters more than it looks	This lease
Which earnings measure the cover is tested on	0.29x of cover here: the most valuable line in the document	
Indexation basis and collar	A 1%-4% collar is worth –0.27% a year to the landlord: about £1.2 million over 25 years	
Change of operator	The registration does not run with the building; a step-in right without an operator is a right to nothing	
Portfolio or single-home review	A portfolio review lets a strong home carry a weak one and hides what a buyer needs	
Capital expenditure obligation	Outside EBITDARM: whoever carries it carries a cost no cover ratio measures	
Guarantee, and from whom	An operating subsidiary is worth its own EBITDA	
Covenant level (not the sizing cover)	Sized at 1.80x, tested at about 1.50x: 81.5 per cent occupancy here	

Sale and leaseback, and what a lender will lend

Chapters 15 and 21. The residual after rent is geared and does not carry the unleveraged multiple. Solve for the multiple that makes the transaction value-neutral.

Home		Operator	
Reviewer		Date	

	This home (book)	Yours
Value of the home, unseparated (multiple × EBITDARM)	£16,816,691	
Cash received for the freehold (rent ÷ yield)	£14,155,464	
Residual EBITDA after rent	£432,797	
Break-even multiple on the residual	6.15x	
Multiple a leased operating company actually trades at (evidence)		
Value created or destroyed	–£497,244 at 5.0x; +£368,349 at 7.0x	

Item	Answer	Evidence / note
The board paper		
What multiple is applied to the residual, and is it stated? (If not, it is the pre-transaction multiple: the double count)		
The break-even multiple, computed before the meeting		
The residual in a bad year: a ten per cent fall in EBITDARM takes about 30 per cent of it here		
Borrowing capacity after the sale: £3.4 million against £10.2 million here		
What the cash is for: development at a yield on cost above the rent, or a distribution of capital		

Debt sizing	This home (book)	Yours
Limited by loan to value (60%)	£10,090,015	
Limited by interest cover (1.75x on EBITDAR, 7.2%)	£10,175,590	
Binding limit, and which	£10,090,015, loan to value	
Debt service (7.2% + 2% amortisation) and service cover	£928,281, 1.38x	
Interest cover against its covenant	1.76x against 1.75x	
Occupancy at which the facility defaults	89.2 per cent: 0.4 points of headroom	

Twenty-five years: the gap test

Chapters 16 and 17. Cover can rise while the business gets worse. The number that decides the lease is how fast fees grow against wages; test it against the record, not a forecast.

Home		Operator	
Reviewer		Date	

Year	Council fee settlement, nursing	Growth	National Living Wage	Growth	Gap (fee less wage)

Compound both over five years; extend the gap over the lease. Half a point a year slower than the central case takes cover at expiry from 1.96x to 1.21x and the margin from 26.8 to 18.5 per cent; the covenant breaks in 2041, with the margin at 23.7 per cent.

Growth rate	Book (a choice)	Your evidence
Self-funded fee	4.5%	
Local authority rate	3.3%	
Third-party top-up	2.8%	
Wages	4.2%	
Other costs	3.0%	
Rent, after the collar	2.8%	

Instead of asking	Ask	Book
Will the lease stay covered?	By how much may fees undershoot the central case every year and still hold 1.50x at expiry?	0.30 points a year
Is the multiple right?	At the yield required, what cover does that multiple imply?	1.52x
Will occupancy hold?	How many admissions a month does it need, for ever?	2.79
Is the private share sustainable?	How long does a resident's capital last at today's fee?	26.7 months, median decile
Is the rating a risk?	What would six months of closed admissions cost?	£1.4 million

Item	Answer	Evidence / note
What to do with it		
Sign at higher cover, or shorter		
Index the rent to something that moves with fees		
Price the mix, not just the margin		
Watch the council settlement like a covenant test		
Ask for a margin covenant, not only a cover covenant		

When the regulator closes the door

Chapters 18 and 19. A rating is a financial covenant. The mechanism is the same in all four cases: the admissions tap closes, nothing else changes, and the home empties at the rate people die.

Home		Operator	
Reviewer		Date	

What closes the tap	Duration and appeal	How it is lifted	Ever applied here? When, how long?
A positive condition on the registration	Appealable; takes time to lift		
An urgent condition	Immediate; appealed after the fact		
A local authority placement suspension	No process; lifted informally; the most common		
A voluntary suspension by the operator	Leaves the fewest traces		

Inspection date	Home or sister home	Rating	Domains below good	Registered manager in post since

Occupancy threshold	This home (book)	Yours	Headroom
Today	89.5%		
Lease covenant (1.50x) breached below	81.5%		8.1 points
Operator loses money after rent below	74.5%		15.0 points
An owner-occupier's lender in default below (Chapter 21 debt)	89.2%		0.4 points

Months of closed admissions	Lowest occupancy	Total cost	Years of EBITDARM
3	76.3%	£957,835	0.63x
6	69.6% (month 6, the month admissions resume)	£1,410,102	0.92x
12	54.5%	£2,399,242	1.57x

Six months costs ten times the largest operating lever and 3.4 times all eight together. It takes 4.0 years to recover. Thinner care hours, higher agency and manager turnover are the three levers that improve EBITDARM fastest and the three that raise this probability.

Building one, and bidding for one

Chapters 20 and 22. A new home is paid for by the fees its catchment can pay; an asking price is a list of things you would have to believe.

Home		Operator	
Reviewer		Date	

Development	Midlands (book)	South East (book)	Yours
Land, construction per bed	£26,000 / £137,000	£52,000 / £168,000	
Total build cost, finance included	£16,965,181		
Finance: drawn balance in the build + carry to break-even	£2,111,405 (22 months carry)		
Cash burned while trading at a loss (not the foregone EBITDARM)	£317,681: £4,538 a bed, 1.8% of cost		
Full cost, per bed	£246,898		
Yield on cost against one over the exit multiple	8.8% against 9.1%		
Profit on cost	-2.7%	-25.5%	

What the asking price implies (£285,000 a bed)	The model	Implied	Believable? Evidence
Occupancy	89.5%	98.6%	
Self-funded weekly fee	£1,638	£1,915	
Share of admissions self-funding	55%	none closes it: £19.0m at 100%	
Care hours per resident per day	4.55	3.85	
Average length of stay	22.5 months	24.8 (fills the home to 99%)	

Bid bridge	Amount	Per bed
Asking price	£19,950,000	£285,000
What the model produces on today's trade	£16,816,691	£240,238
The gap to be argued about	£3,133,309	£44,762
Value of the largest single lever, if delivered	£1,488,059	£21,258
All eight levers: a total nobody can deliver	£4,620,415	£66,006

Diligence list: admissions and occupied beds, divided; private share of bed-weeks and conversions; care hours against roster and payroll; headcount not FTE; agency by month for 24 months; every inspection report and the manager's tenure; the management charge; the lease (cover line, collar, change of operator); five years of council settlements against the NLW; the capital programme.