

**Private equity ownership**  
**nursing homes**  
The Washington Post  
Overdoses, bedsores, broken bones: What happened?  
Democracy Dies in Darkness  
Investment in Nursing Homes  
'Horror' of Private Equity  
Caring Scrutinizes  
Investment in Nursing Homes  
is killing people at

# Private Equity Investment in Long Term Care

Investor-Owned Nursing Homes Draw Scrutiny as Deals  
Flourish

At private equity-owned nursing homes, an "enormous" increase in death rates, study finds

# ONE OF THE BIGGEST PROBLEMS WITH LONG-TERM CARE IS TRANSPARENCY

- Ownership - who actually owns the healthcare provider?
- How much profit (or loss) does a **healthcare provider** realize annually?
- How much profit (or loss) does the **intermediary company** realize annually?
- How much profit (or loss) does the **parent company** realize annually?

# OWNERSHIP TRANSPARENCY

- Ownership - who actually owns the healthcare provider?
- Why is this important?
  - Who is getting paid billions of dollars by U.S. taxpayers?
  - Are the owners individuals or corporations that should be owning healthcare companies?
  - Is one parent company dominating a market, creating anti-competition?



# FINANCIAL TRANSPARENCY

- How much profit (or loss) does a **healthcare provider** realize annually?
- How much profit (or loss) does the **intermediary company** realize annually?
- How much profit (or loss) does the **parent company** realize annually?
  
- Why is this important?
  - Healthcare providers are constantly arguing they need more Medicare and Medicaid reimbursement, do they really need it?
  - Is this an issue of needing more reimbursement or is it a utilization problem (profiteering)?

# TRADITIONAL OWNERSHIP

## Private    Public



Direct Control of Assets

Not traded on a stock exchange

Can be opaque (Limited Ownership  
Transparency)

Takes all the risk – profits go to owners  
(No Financial Transparency)

Direct Control of Assets

Publicly traded on a stock exchange

Takes all the risk – and distributes profits to  
shareholders

# WHAT IS PRIVATE EQUITY?

## Private Equity



Not traded on a stock exchange

Opaque (for those not part of the deal)  
(No Ownership Transparency)



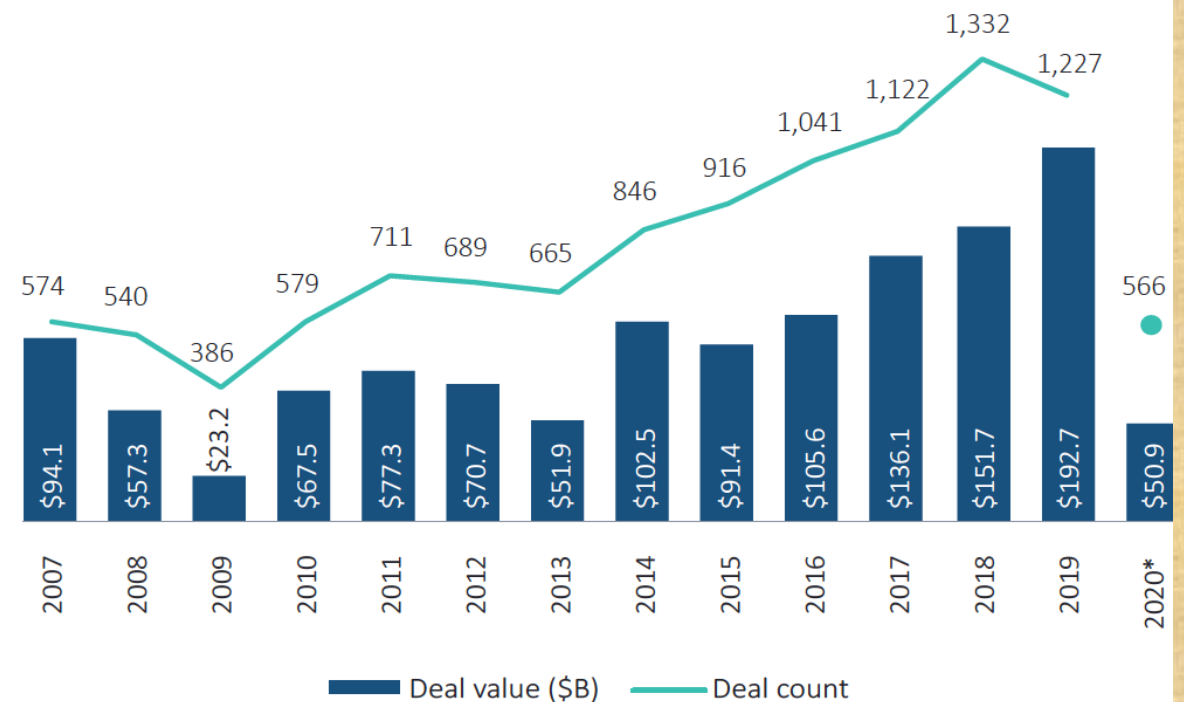
Generally, has control of the investment

Takes some of the risk – and keeps the profits  
(No Financial Transparency)

# PRIVATE EQUITY IN HEALTHCARE

- In 2019, PE firms invested over \$190 billion across 1,227 healthcare deals
- This represented 14% of all PE deal value, up from 8.9% in 2009
- Alongside tech, healthcare is of the most popular investment targets
- PE firms are sitting on billions of dollars of cash earmarked for health care acquisitions: as of 2019, private equity firms had \$29.2 billion in capital waiting to be deployed

Healthcare PE deal activity



Source: PitchBook | Geography: North America & Europe  
\*As of August 13, 2020

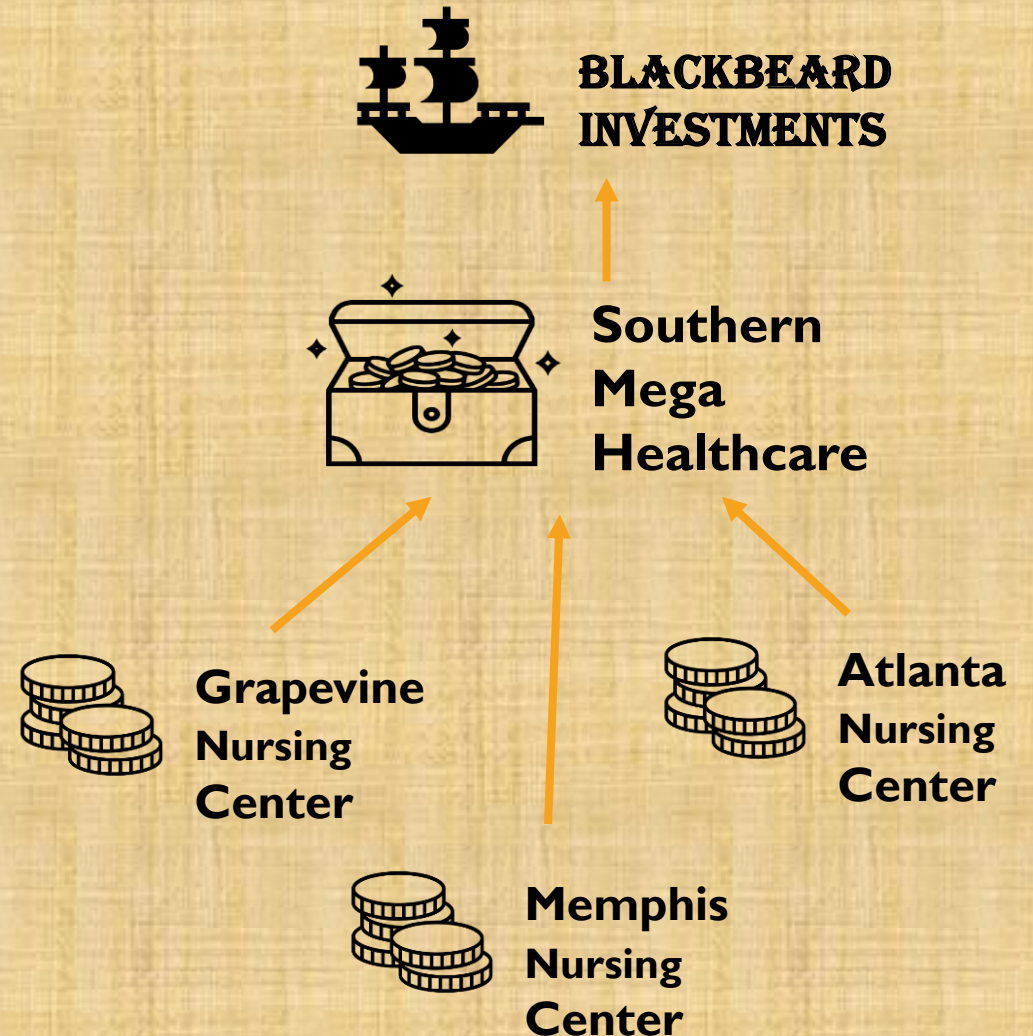


# HOW DO PRIVATE EQUITY FIRMS OWN COMPANIES?

Mostly, private equity firms own companies through funds, which pool capital from other investors. (No Ownership Transparency)

- Investors commit to a fund.
- The fund buys several, maybe dozens of companies.
- The fund tries to grow cash flow at those companies.
- The fund sells the purchased companies, keeps a portion of the profits, and distributes the rest to investors.

Big firms may have several different funds.





# WHAT DO PRIVATE EQUITY FIRMS DO IN THE LONG-TERM CARE MARKET?



**BLACKBEARD  
INVESTMENTS**

Invest in companies

Proceeds go to the PE firm  
(And distribute to investors)



**Grapevine  
Nursing Center**

Try to grow company's cash flow over 4-7 years by:

- Growing revenue
- Buying competitors
- **Cutting expenses**



**Southern  
Mega  
Healthcare**

Hope to sell company for a premium or take it public through an IPO.

# HOW IS THIS DIFFERENT FROM TRADITIONAL OWNERSHIP?



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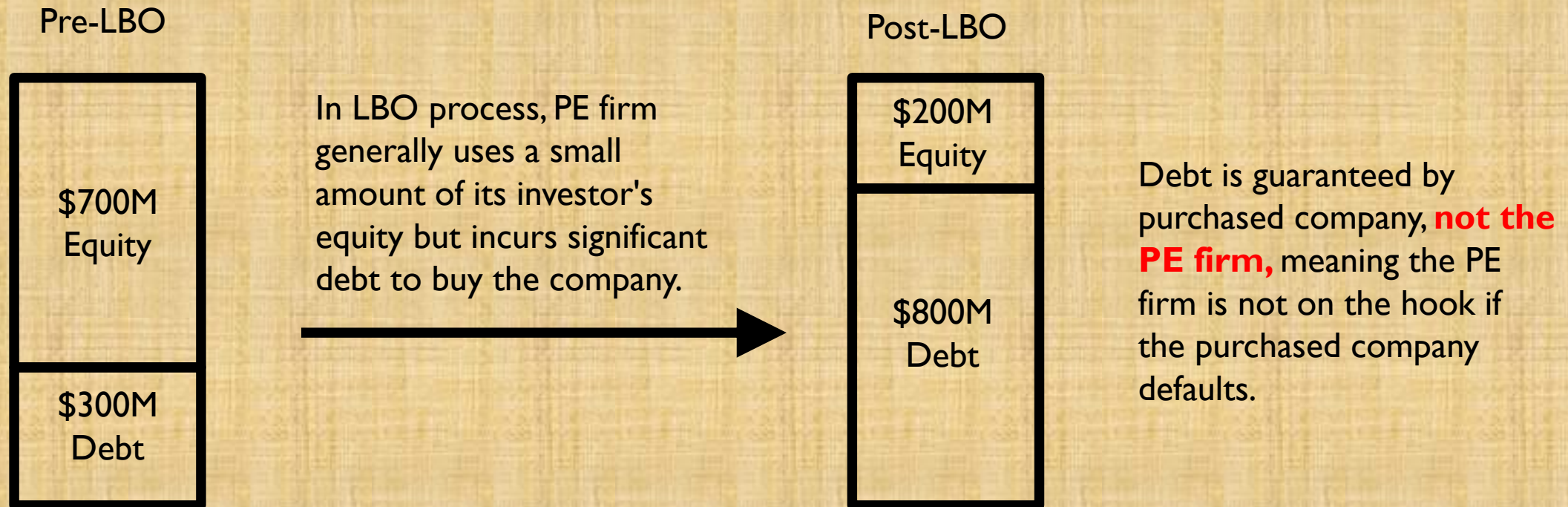
Hope to sell company for a premium or take it public through an IPO.

WHAT'S THE ROOT ISSUE WITH PRIVATE  
EQUITY?

**Debt**

# HOW DOES PRIVATE EQUITY USE DEBT?

Private equity firms use leveraged buy-outs (LBOs) to acquire other companies





# WHY DO PE FIRMS USE SO MUCH DEBT?

- Tax advantage
  - Interest is deductible, meaning companies with more debt are more “efficient” – i.e. pay less in taxes
  - 2017 Tax Cuts and Jobs Act limited this somewhat, but it is still important
- Debt magnifies returns (and losses)
- Debt is cheap
  - Interest rates have been historically low
  - With low interest, debt acts as “free money” for PE firms to buy more

# PRIVATE EQUITY FIRMS CAN STILL MAKE MONEY IF INVESTMENTS GO BANKRUPT

- Private equity firms can take money out early through the sale of long-term assets (real estate).
- Private equity firms can take money out early through debt-funded dividends (i.e. dividend recapitalizations). (explained in just a couple minutes)
- Limited liability means private equity firms cannot lose any more than the capital the limited capital they put in.
- On the other hand, upside potential is unlimited, magnified by high debt.
- Private equity firms are typically judged (and PE execs paid) based on fund-level returns – i.e. the combined returns of all of the companies a PE fund has invested in.
- PE firms have a large incentive to identify and invest in companies in which they can dramatically grow cash flow in 4-7 years

## COMMON PE TACTICS:

- Sale-leasebacks
- Dividend recapitalizations
- Management fees
- Roll-ups

WHAT ARE YOU TALKING ABOUT?



# SALE-LEASEBACKS

- Transaction by which a purchased company sells its real estate and then leases it back from the purchaser.
- Why?
  - Quick and easy way to monetize assets
  - Seller maintains operational control
  - Tax benefits
  - Ideally, capital is redeployed to invest in operations, reduce debt, or make acquisitions, but it may not be
- The risks:
  - May increase liabilities for the purchased company
  - Loss of long-term investment for short term gain for PE firm



# SALE-LEASEBACKS



Southern  
Mega Healthcare

**\$200  
Million**

(proceeds from  
sale)

**\$15 million**

(rent)



Southern Property  
Holdings, Inc.





# DIVIDEND RECAPITALIZATIONS

Transactions by which private equity firms add debt to the purchased companies' balance sheets in order to collect dividends for themselves.



**BLACKBEARD  
INVESTMENTS**

\$300 Million payment  
to Blackbeard Investments



**Southern  
Mega  
Healthcare**

\$300 Million loan taken out  
by Southern Mega  
Healthcare

- This is Southern's Debt
- Interest Payments

Dividend  
Recapitalization

# DIVIDEND RECAPITALIZATIONS

- Why?
  - Quick and easy way to generate cash for PE firm and its investors
  - Can inflate a fund's Internal Rate of Return (IRR)
- The risks:
  - Added debt may hurt long-term value of the purchased company
  - No liability for the PE owner, misaligned incentives
  - Diverts money to debt service could have been invested in operating improvements
  - Leaves purchased companies susceptible to market conditions



# FEEES

- Management fees, monitoring fees, transaction fees, etc. paid regularly to the PE firm
- Stipulated in a Management Services Agreement
- Tax deductible



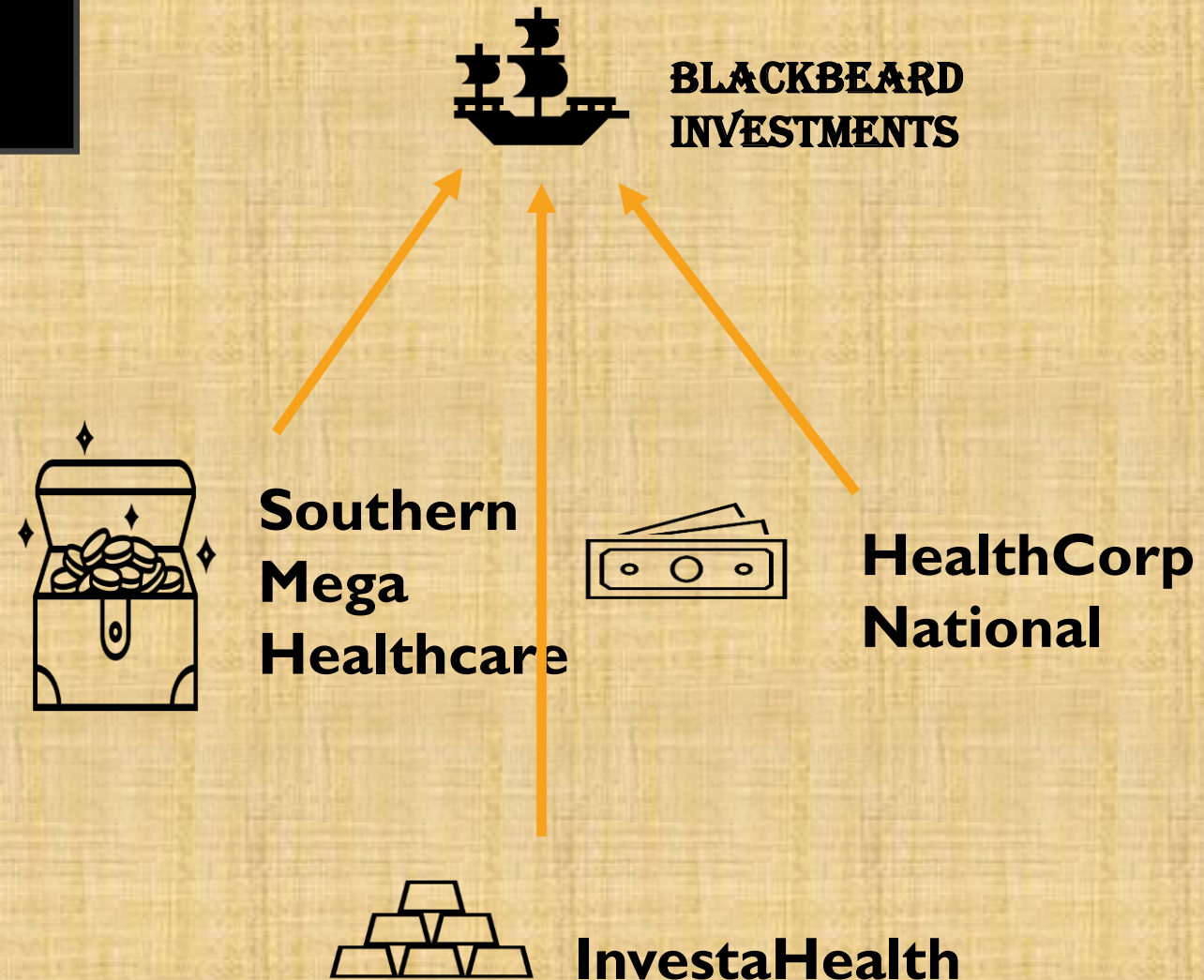
**BLACKBEARD  
INVESTMENTS**



**Southern Mega  
Healthcare**

# ROLL-UPS

- Private equity firm's strategy to acquire or create a company to then acquire multiple companies in a particular market sector
- Can ultimately lead to controlling market power, reducing competition
- Can lead to increased health care costs and decreased quality of services
- Can fly under the FTC's radar
  - (No Ownership Transparency)



A PRIVATE EQUITY FIRM'S SINGULAR  
FOCUS IS TO **DOUBLE** OR **TRIPLE** ITS  
INVESTMENT IN 4-7 YEARS

*What does this mean for  
patient care?*

# PE IMPACTS ON HEALTHCARE PROVIDERS

- Reduced staffing, or filling beds without adequate staffing ratios
- Overreliance on unlicensed staff to reduce labor costs
- Failure to provide adequate training
- Pressure on physicians to provide unnecessary and potentially costly services
- Violation of regulations required for participants in Medicare and Medicaid such as anti-kickback provisions, creating litigation risk



## AT NURSING HOMES UNDER PE OWNERSHIP:

- Short-term mortality of Medicare patients **increases by 10%**
- Average staffing levels decrease
- Patient mobility declines and pain intensity increases
- Probability of taking antipsychotic medications **increases by 50%**
- Management fees increase by 7.7%, lease payments increase by 75%, and interest payments increase by about 325%. Cash on hand decreases by about 38%, meaning less money for patient care

## PE ACQUISITIONS OF NURSING HOMES HAS CONTINUED DURING THE PANDEMIC

- 2019: 33 private equity-driven nursing home acquisitions valued at \$483 million
- 2020: 43 private equity-driven nursing home acquisitions valued at \$1.5 billion

# WHY WOULD PE CONTINUE INVESTING IN AN UNPROFITABLE INDUSTRY?

It wouldn't. PE's sole purpose is to maximize returns on investment. They would never invest in a losing industry.

Why do healthcare operators continue to beg for more government money and constantly argue they are losing money? (No Financial Transparency)

- Is this a need for more reimbursement?
- Is this a utilization issue? (profiteering)

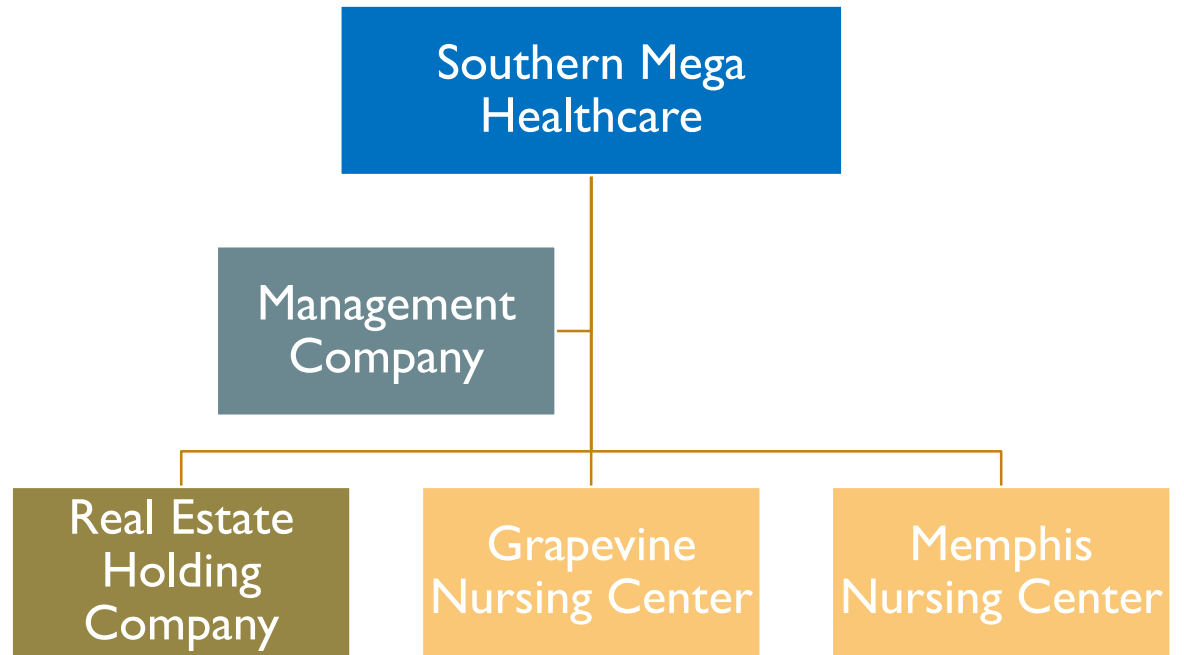


# NURSING HOME FINANCES

Private Equity in Action



**RELATED PARTIES  
(LIMITED OWNERSHIP  
TRANSPARENCY)**





# ORIGINAL INCOME STATEMENT

Grapevine Nursing Center

**Income Statement – Grapevine Nursing Center**

**Revenue**

Total Patient Revenue (Billing)	\$16,000,000
Less: Contractual Allowances	1,750,000
Net Patient Revenue	14,250,000

**Expenses**

Total Operating Expenses	\$13,000,000
--------------------------	--------------

**Net Income (Profit or Loss)**

Net Income	\$1,250,000
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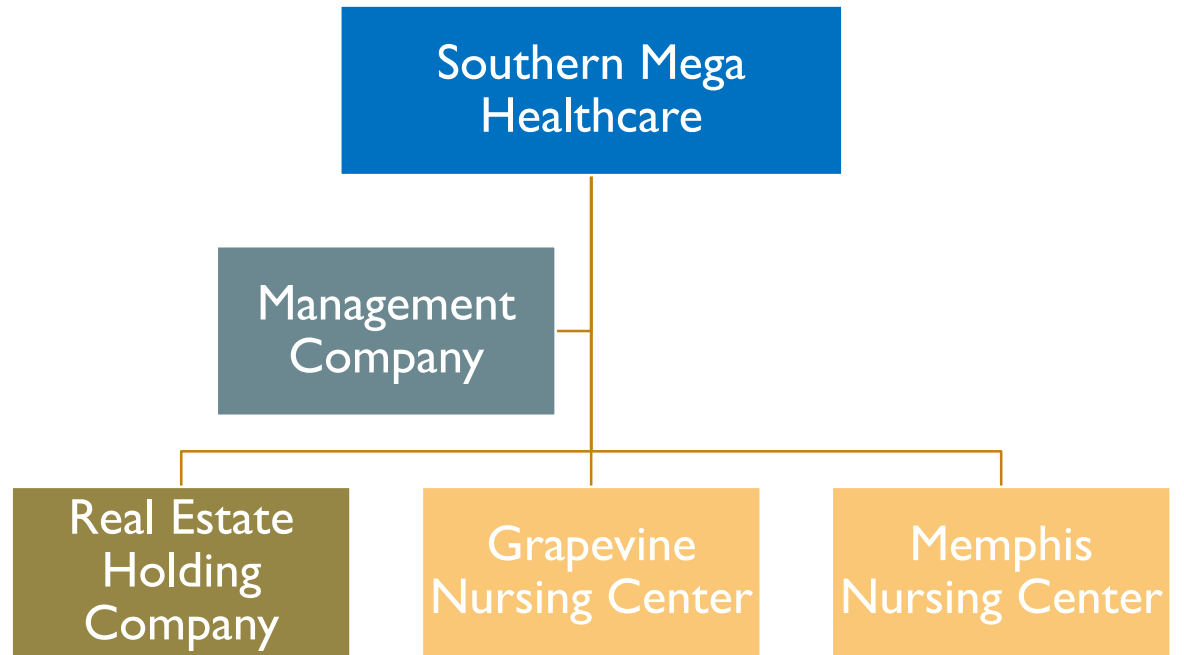
**ORIGINAL  
INCOME  
STATEMENT**

<b>Income Statement – Grapevine Nursing Center</b>				
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ORIGINAL  
INCOME  
STATEMENT



**RELATED PARTIES  
(LIMITED OWNERSHIP  
TRANSPARENCY)**





# “FIX” THE INCOME STATEMENT

Grapevine Nursing Center

Income Statement – Grapevine Nursing Center				
<b>Revenue</b>				
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Total Operating Expenses	\$13,000,000			
<b>Net Income (Profit or Loss)</b>				
Net Income	\$1,250,000			

ORIGINAL  
INCOME  
STATEMENT







<b>Expenses</b>				
<b>Real Estate (Owned)</b>				
Mortgage Payment	\$500,000			
Taxes	100,000			
<b>Total for Real Estate</b>	<b>600,000</b>			
<b>Real Estate (Rented)</b>				
Lease Payment	\$2,000,000			
<b>Total for Real Estate</b>	<b>\$2,000,000</b>			
<b>Increased Real Estate Expense</b>	<b>\$1,400,000</b>	←	Siphon	

**COMPARING EXPENSES**







05-11

FORM CMS-2540-10

4190 (Cont.)

STATEMENT OF COSTS OF SERVICES  
FROM RELATED ORGANIZATIONS AND  
HOME OFFICE COSTS

PROVIDER CCN:

PERIOD:

WORKSHEET A-8-1

FROM \_\_\_\_\_

TO \_\_\_\_\_

PART I - COSTS INCURRED AND ADJUSTMENTS REQUIRED AS A RESULT OF TRANSACTIONS WITH RELATED  
ORGANIZATIONS OR CLAIMED HOME OFFICE COSTS

	Line No.	Cost Center	Expense Items	Amount Allowable In Cost	Amount Included in Wkst. A., col. 5	Adjustments ( col. 4 minus col. 5 )	
	1	2	3	4	5	6	
1	1.	CAP REL COSTS - BLDGS & FIXTURES	FACILITY LEASE	364,540.	522,000.	(157,460.)	1
2	1.	CAP REL COSTS - BLDGS & FIXTURES	HOME OFFICE - CAPIT	50,574.		50,574.	2
3	4.	ADMINISTRATIVE & GENERAL	HOME OFFICE - ADMIN	103,451.		103,451.	3
4	4.	ADMINISTRATIVE & GENERAL	HOME OFFICE - POOL	304,045.	628,356.	(324,311.)	4
5	4.	ADMINISTRATIVE & GENERAL	UNITED COLLECTIONS	1,329.	147.	1,182.	5
6	30.		UNITED CLINICAL - NU	139,789.	200,260.	(60,471.)	6
7	9.		UNITED CLINICAL - NURSING ADMIN		7,979.	(7,979.)	7
8	8.		UNITED CLINICAL - DIE	19,346.	35,221.	(15,875.)	8
9	4.		UNITED CLINICAL - AD	5,992.		5,992.	9
10	TOTALS (sum of lines 1-9) (Transfer column 6, line 10 to Wkst. A-8, col. 3, line 12)			2,541,574.	2,991,438.	(449,864.)	10

- Not audited and certified by a CPA
- Not audited by CMS
  - Garbage In – Garbage Out
- No Ownership Transparency
- No Financial Transparency

## COST REPORT ISSUES

WHAT AFFECT  
DOES THIS HAVE?



Protected Assets in Shell  
Corporations



Siphoned Money so they  
don't show a Profit



Leads to Understaffing

# WHY UNDERSTAFF?



Protected Assets in Shell Corporations (limited risk to operations)



Siphoned Money so they don't show a Profit (great excuse to cut staffing)



Why Understaff? (Increases profits to the ownership)



# STAFFING ANALYSIS



<b>Staffing Analysis</b>			
<b>Expected Staffing</b>			
<b>Reported Staffing</b>			
<b>Difference</b>			

STAFFING  
ANALYSIS

Staffing Analysis				
<b>Expected Staffing</b>	<b>HPPD</b>			
RN				
LPN				
Aide				
<b>Total</b>				
<b>Reported Staffing</b>				
RN				
LPN				
Aide				
<b>Total</b>				
<b>Difference</b>				
RN				
LPN				
Aide				
<b>Total</b>				

# STAFFING ANALYSIS

Staffing Analysis				
<b>Expected Staffing</b>		<b>HPPD</b>		
RN		1.23		
LPN		0.65		
Aide		2.58		
<b>Total</b>		<b>4.46</b>		
<b>Reported Staffing</b>				
RN				
LPN				
Aide				
<b>Total</b>				
<b>Difference</b>				
RN				
LPN				
Aide				
<b>Total</b>				

# STAFFING ANALYSIS



Staffing Analysis				
<b>Expected Staffing</b>		<b>HPPD</b>		
RN		1.23		
LPN		0.65		
Aide		2.58		
<b>Total</b>		<b>4.46</b>		
<b>Reported Staffing</b>				
RN		0.35		
LPN		0.98		
Aide		2.27		
<b>Total</b>		<b>3.57</b>		
<b>Difference</b>				
RN				
LPN				
Aide				
<b>Total</b>				

# STAFFING ANALYSIS

Staffing Analysis				
<b>Expected Staffing</b>		<b>HPPD</b>		
RN		1.23		
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Aide		2.58		
<b>Total</b>		<b>4.46</b>		
<b>Reported Staffing</b>				
RN		0.35		
LPN		0.98		
Aide		2.27		
<b>Total</b>		<b>3.57</b>		
<b>Difference</b>				
RN		-0.88		
LPN		0.33		
Aide		-0.34		
<b>Total</b>		<b>-0.89</b>		

# STAFFING ANALYSIS



VALUE OF UNDERSTAFFING





Value of Staffing Difference				
Difference	HPPD	S-3-V Hourly Wage		
RN	-0.88	\$33.10		
LPN	0.33	\$24.57		
Aide	-0.34	\$13.88		
<b>Total</b>	<b>-0.89</b>			

VALUE OF THE UNDERSTAFFING

Value of Staffing Difference			
Difference	HPPD	S-3-V	
		Hourly Wage	Daily \$ Difference
RN	-0.88	\$33.10	-\$29.13
LPN	0.33	\$24.57	\$8.11
Aide	-0.34	\$13.88	-\$4.72
<b>Total</b>	<b>-0.89</b>		<b>-\$25.74</b>

VALUE OF THE UNDERSTAFFING



Value of Staffing Difference			
		S-3-V	
Difference	HPPD	Hourly Wage	Daily \$ Difference
RN	-0.88	\$33.10	-\$29.13
LPN	0.33	\$24.57	\$8.11
Aide	-0.34	\$13.88	-\$4.72
<b>Total</b>	<b>-0.89</b>		<b>-\$25.74</b>
Daily \$ Difference	-25.74		
Days in Year	365		
<b>One Resident for Year</b>	<b>-9394.80</b>		
One Resident for Year	9394.80		
Average Daily Census	105		
<b>Total Savings</b>	<b>\$986,451</b>		

**VALUE OF THE UNDERSTAFFING**

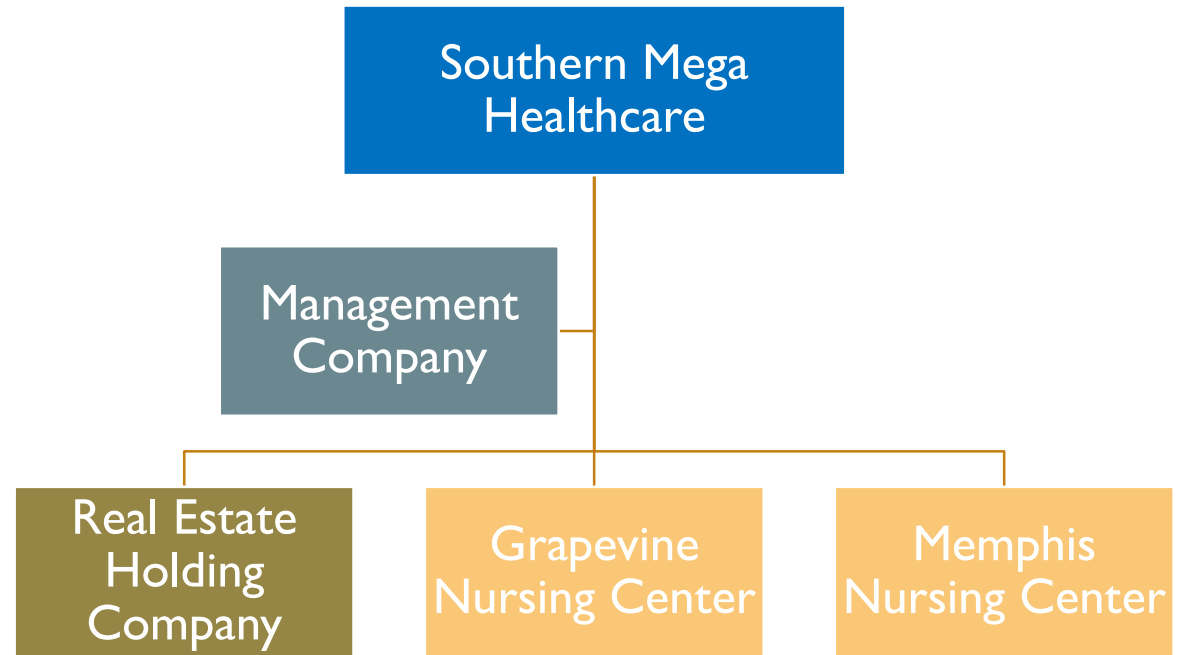
# NO TRANSPARENCY

Private Equity hidden money, horrible  
outcomes.

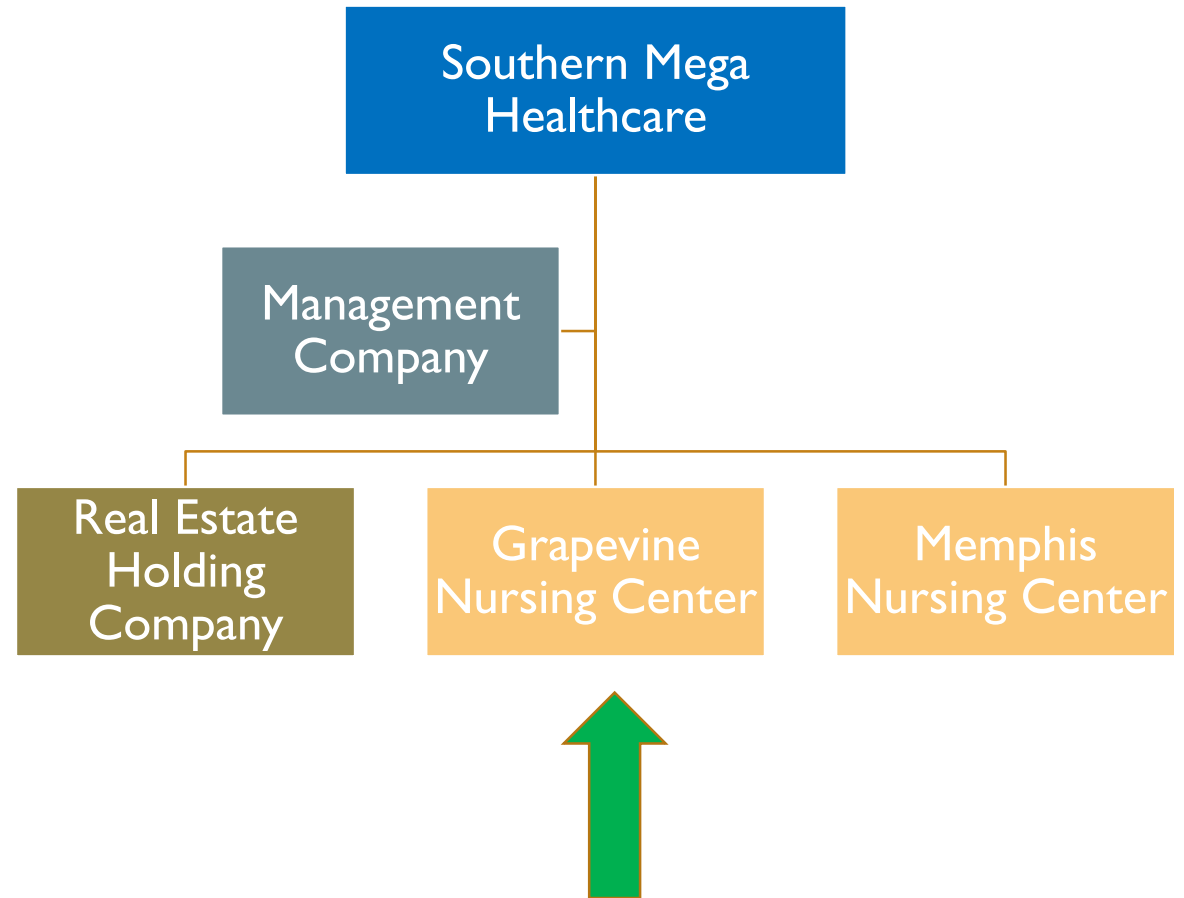




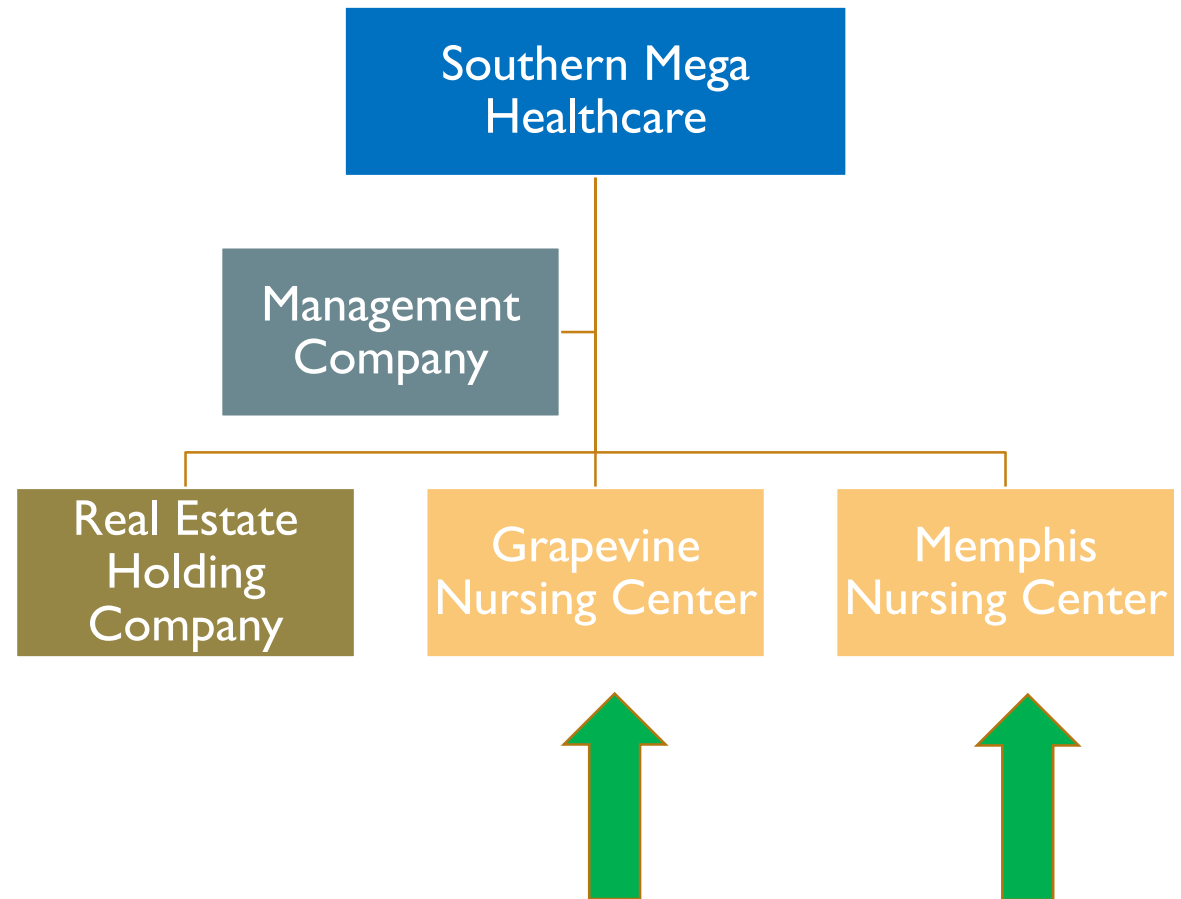
# CORPORATE STRUCTURE



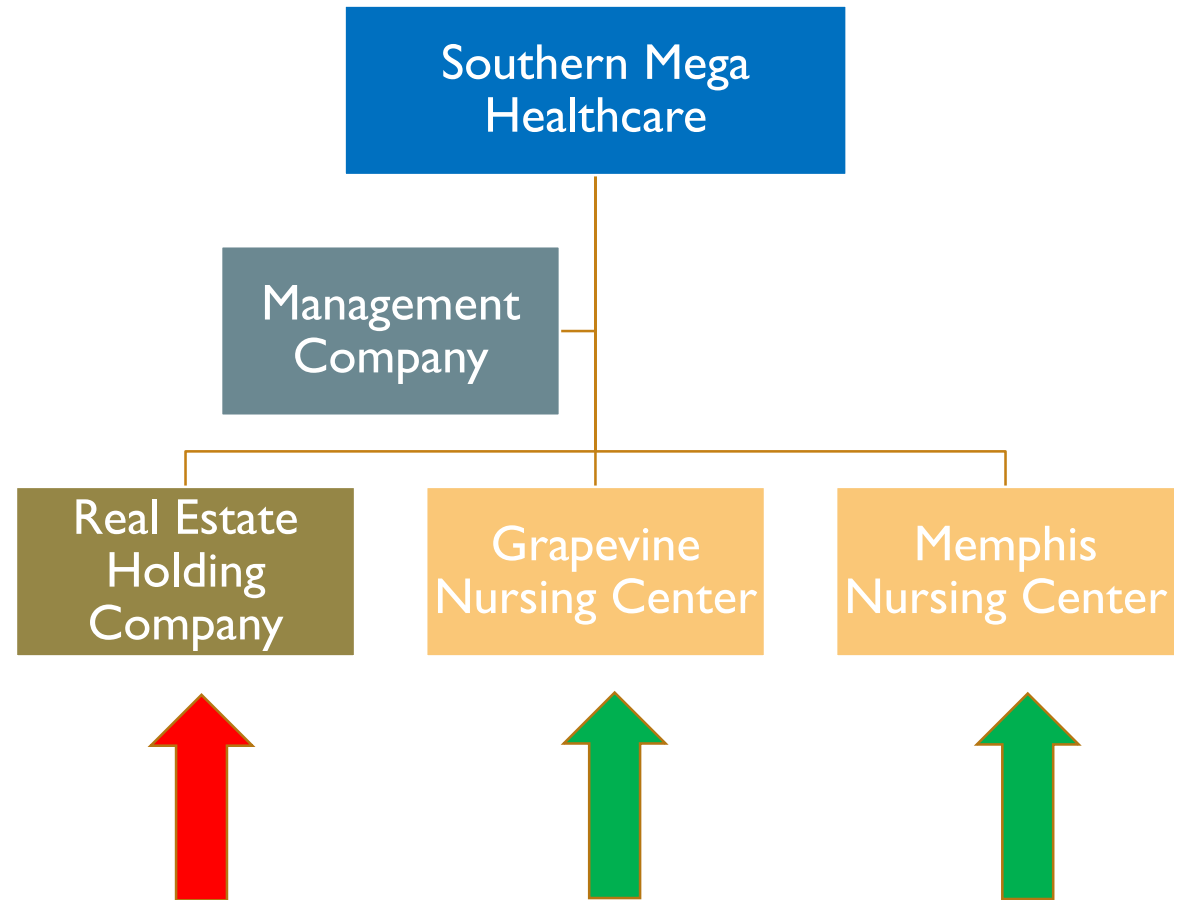
# FINANCIAL REPORTING



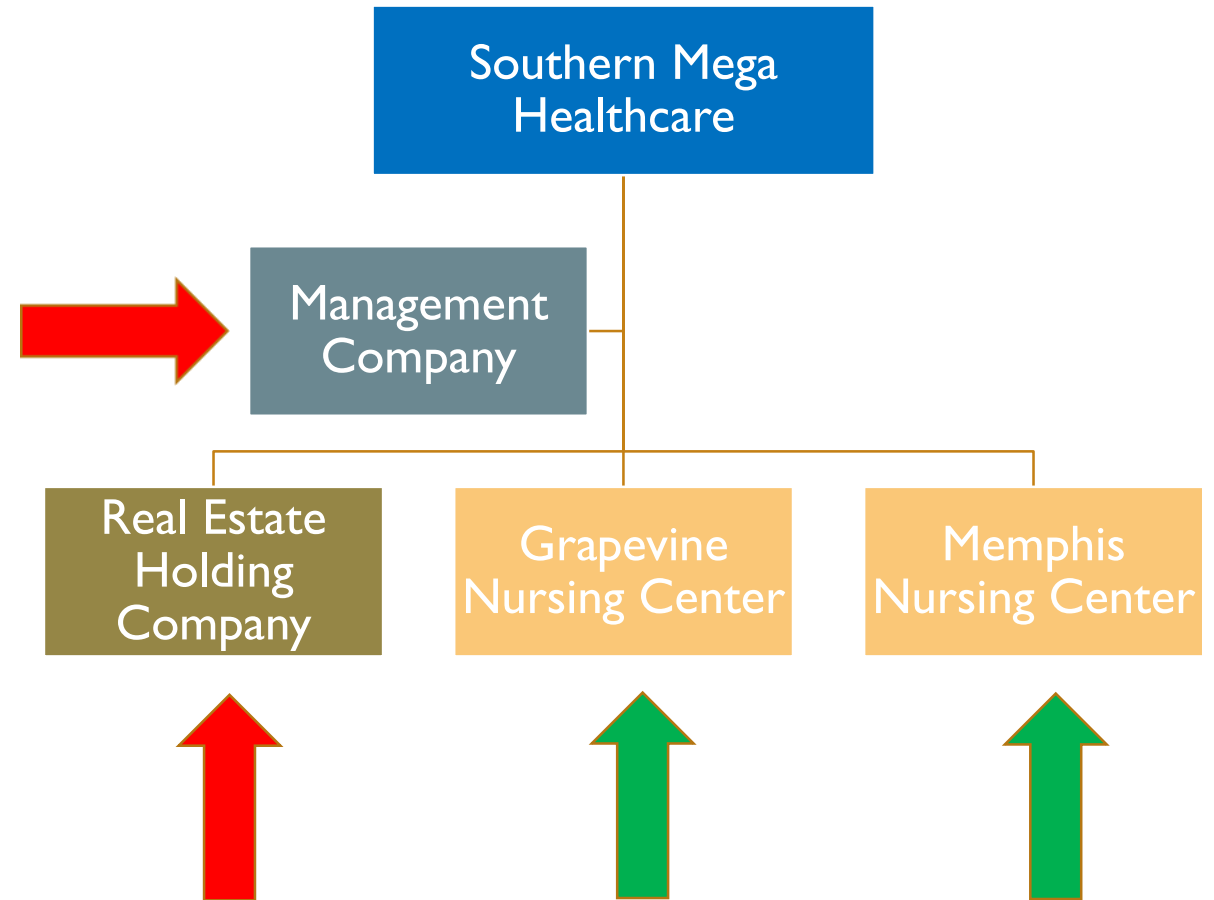
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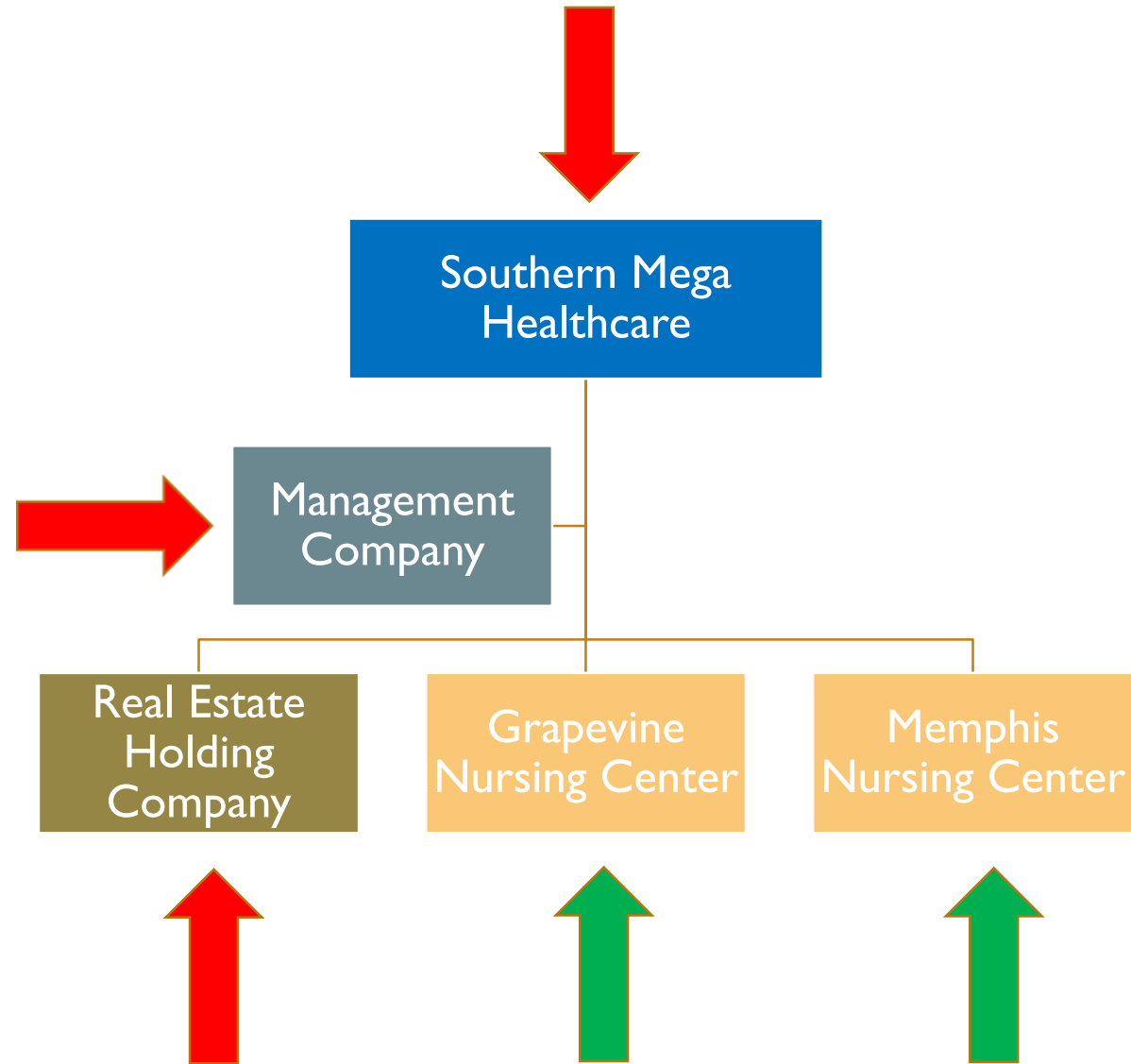


# FINANCIAL REPORTING





**FINANCIAL  
REPORTING**



**BIGGEST  
QUESTIONS?**



WHO OWNS THE  
PARENT COMPANY?  
  
IS POOR CARE DUE  
TO UNDER  
REIMBURSEMENT OR  
UNDER UTILIZATION?

Biggest Questions





EASY ANSWERS?



# DISCLOSURE OF OWNERS, ALL THE WAY BACK TO THE INVESTORS

Easy Answer #1  
(Ownership Transparency)





CONSOLIDATED,  
AUDITED, FINANCIAL  
STATEMENTS FROM  
THE PARENT TO THE  
BOTTOM OF THE  
CORPORATE  
STRUCTURE

Easy Answer #2

(Financial Transparency)





THANK YOU

Ernest C. Tosh

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