

Health & Care Focus

DRIVING LIFELONG PROSPERITY

Spring 2018

SPOTLIGHT ON HEALTH AND CARE MARKET OUTLOOK



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STATE OF THE MARKET – SIGNIFICANT VOLUME OF TRANSACTIONS DESPITE THE HEADWINDS

Since our last overview of acquisitions and disposals in the healthcare sector, there have been a number of developments impacting operators nationwide.

Austerity continues. Brexit raises question marks over the ability to employ carers from Europe and perhaps further afield in the future. The National Minimum Wage continues to increase ahead of inflation. Sleep-in liabilities are continually in the trade headlines as we await further clarity on the issue.

The impacts on the sector have been mixed. Certain areas, such as children's residential, which tend to be cyclical, are again an attractive area for private investment activity,

alongside fostering agencies, which continue to consolidate.

Elderly care homes (nursing and residential) have a wide variation in exit values with prime, new-build and larger facilities in the south of England commanding extremely high prices while the North suffers from lower average fees. Countrywide, secondary or tertiary non purpose-built, converted or sub-twenty bed homes struggles to find any exits at all. Consequently, we have seen a larger increase in home closures

and repurposing of the underlying freehold assets.

Perhaps the main change over the last couple of years has been the influence of Real Estate Investment Trusts (REITs) and the sale and leaseback funding that these investors offer. In particular, this is driving values of the prime quality elderly care homes with a number of high profile, high value transactions in recent years. We have also found this to be the case in the smaller specialist care arena, where the REITs are driving the growth in volume

and size of transactions due to the ability for specialist supported housing to obtain higher housing benefits than private landlords through the use of a housing association. This, in turn, is driving values of supported living businesses with properties, as well as mental health or learning disabilities registered residential businesses, where the operators then deregister the residential services.

The quality of earnings of specialist care and elderly care are such that the REIT interest remains high and this is

likely to continue for the foreseeable future as long as the underlying freeholds can be viewed as having a long term future use within the care sector.

If you would like to discuss how your business can capitalise from interest in certain sectors or are interested in acquiring businesses in your chosen field, please contact a member of the Health and Care Corporate Finance Team.

SECTOR	Elderly (nursing)	Elderly (residential)	Domiciliary care (elderly)	Domiciliary care (specialist)	Learning disability services (residential)	Learning disability services (supported living)	Mental health (residential/ supported living)	Acquired Brain Injury	Children's services (residential)	Children's services (fostering)	Day nurseries
OUTLOOK											
RECENT VALUE TREND	∨	∨	∨	∧	⟨ ⟩	∧	∧	∧	⟨ ⟩	∧	∨
ACTIVITY	A number of nursing homes are struggling with agency cost and reverting to residential care only. Prime assets attract high values, supported by sale and leaseback funding. Smaller or less 'future proof' assets struggle to attract buyers.	Larger homes are well funded and sought after by private owners and larger corporates. The south of England dominates the search areas for buyers.	Pressure on fees, but more importantly recruitment and retention, are depressing values for all but the larger businesses. Limited private equity interest and difficult for smaller operators to fund acquisitions.	Specialist care is attracting substantial interest from private equity investors and a number of existing trade acquirers, with increased demand for all sizes of businesses providing specialist complex care in the home.	High acuity and good quality businesses attract higher multiples, but exit values are lower for businesses with average weekly fees below £2,000 per week. However, strong prices are being paid for businesses where the properties can be deregistered and the freeholds sold to property investors.	Significant interest in supported living due to the value being created in freehold supported living properties. Trade operators are also interested in businesses with no freehold property.	Opportunities to deregister to supported living are generating higher values. However, mental health services continue to lag behind learning disability services in terms of demand from buyers in the market.	Quality businesses still experience high levels of demand, particularly where the business offers a rehab pathway. Values continue to be high. Trade and private equity actively pursuing any opportunities.	A number of new buyers in the market seeking acquisition opportunities. Businesses with freehold properties are more attractive, but leasehold businesses are still realising strong exits.	Independent Fostering Agencies of all sizes and geographies are being sought by the larger trade operators. A very active sector once again.	Increased interest in the sector from private equity and smaller privately owned groups. Quality, location and tenure (leasehold versus freehold) is key to maximising value.

HOW CAN WE HELP YOU?

We act for a significant number of operators within the health and care sector and have a wealth of experience in the provision of compliance services, business advice and support.

We have developed enviable knowledge and understanding of healthcare over the past 25 years, which has enabled us to stay at the cutting edge of developments in the sector, both through transactional work and our client relationships.

We work with well over 200 businesses on an ongoing basis in a variety of sub sectors including:

- Nursing and residential homes for the elderly
- Specialist needs education colleges
- Eating disorders, drug and alcohol units
- Children's homes
- Independent hospitals
- Learning disabilities
- Supported living
- Mental health
- Domiciliary care

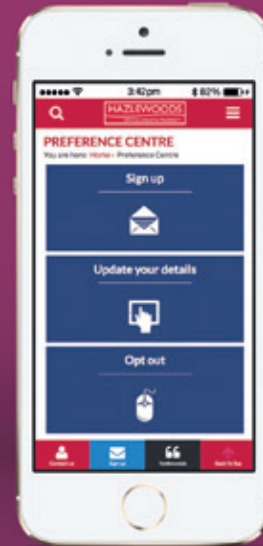
HOW DO WE COMMUNICATE?

We regularly communicate with our clients and contacts to share information and stay up to date through:

- Meetings
- Conversations and discussions
- Broadcast e-mails advising on topical issues
- Newsletters on sectoral issues
- Networking events

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