



Dorset Care Conference

Issues/Pitfalls & Opportunities

7 February 2019





Disclaimer

The briefing is of a general nature and is not a substitute for professional advice. No responsibility can be accepted for the consequences of any action taken or refrained from as a result of what is said.





Programme

- Overview, Issues and Pitfalls

Greg Palfrey - Advisory Partner, Smith & Williamson

- Opportunities for Growth

Stuart Goodman - Corporate Finance, Smith & Williamson





Overview, Issues and Pitfalls

Greg Palfrey
Advisory Partner
Smith & Williamson





Overview - Sector Trends

- Consolidation
- Increasing accountability
- Public funding cuts
- Legislation
- CQC sensitivity
- Demography
- Living wage
- Immigration

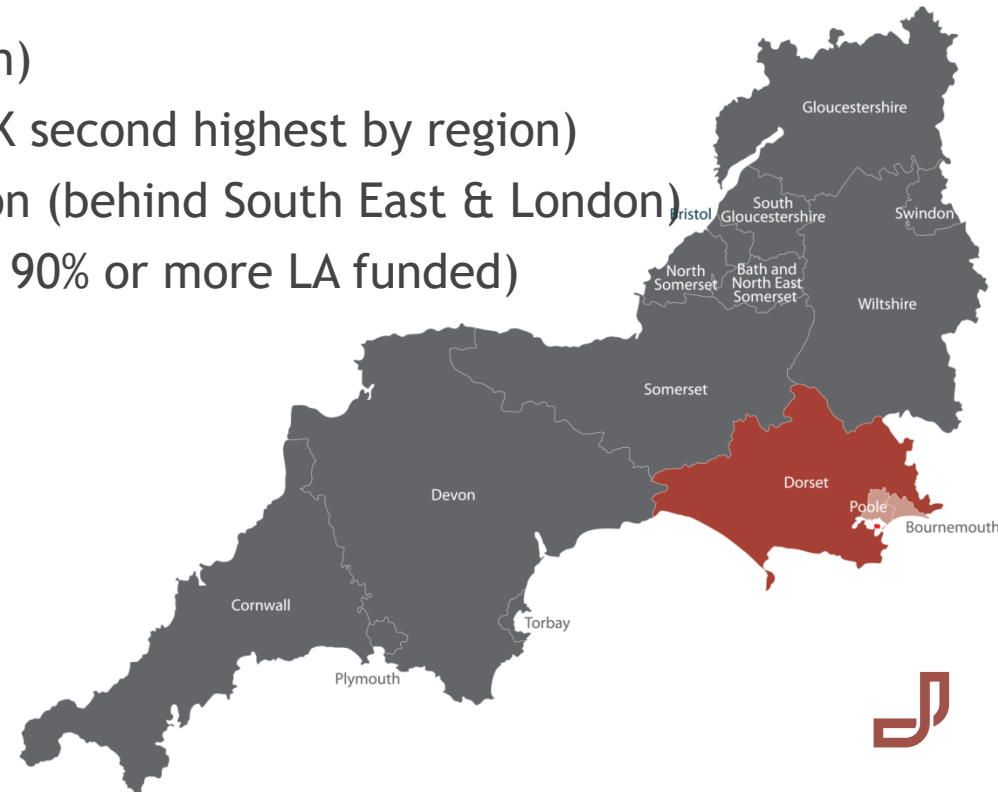




Overview - the Dorset/South West scene

- 29% of Dorset population over 65 (and growing)
- South West (year to 30 April 2018)
 - home closures exceed new openings
 - de-registration rate similar to 2017 but 40% fall in new registrations
 - net loss of 425 beds (273% higher than previous year)
 - mitigated by new registrations being homes with higher number of beds
 - 40 beds per 1,000 over 65s
 - 83.1% occupancy rate (UK lowest by region)
 - 56% self-funding percentage of income (UK second highest by region)
 - Average weekly fees third highest by region (behind South East & London)
 - National EBITDARM 28.3% (15.9% in homes 90% or more LA funded)
- Dorset is 4th ranked county for future supply
 - 3-4 beds in pipeline per 1,000 over 65s (beds with planning consent)

Sources: *Dorset City Council*
Knight Frank 2018 UK Care Homes Report
Knight Frank 2018 UK Healthcare Report





What we see

- Stretched management
- Management information
- Staffing
- Home managers
- Income mix (self-fund v LA)
- CQC non-compliant
- Property issues (investment)
- Pension time bomb
- Outdated business model





Business Model: Clear Goals

- Is it reviewed regularly?
 - SWOT
 - changes in your market
 - integrated forecasts & monitoring
 - key assumptions
 - no “sacred cows”
 - clear strategy
- Communications
 - staff, clients, regulators and funders
- Succession planning
 - management and ownership
- Growth, acquisitions, mergers and sales





Happy days!





Opportunities for growth

Stuart Goodman, Corporate Finance





Growth drivers

Ageing population with post war “Baby Boomers” reaching retirement

Buoyant healthcare property market and availability of investment

Fragmented specialist and elderly care markets continue to consolidate

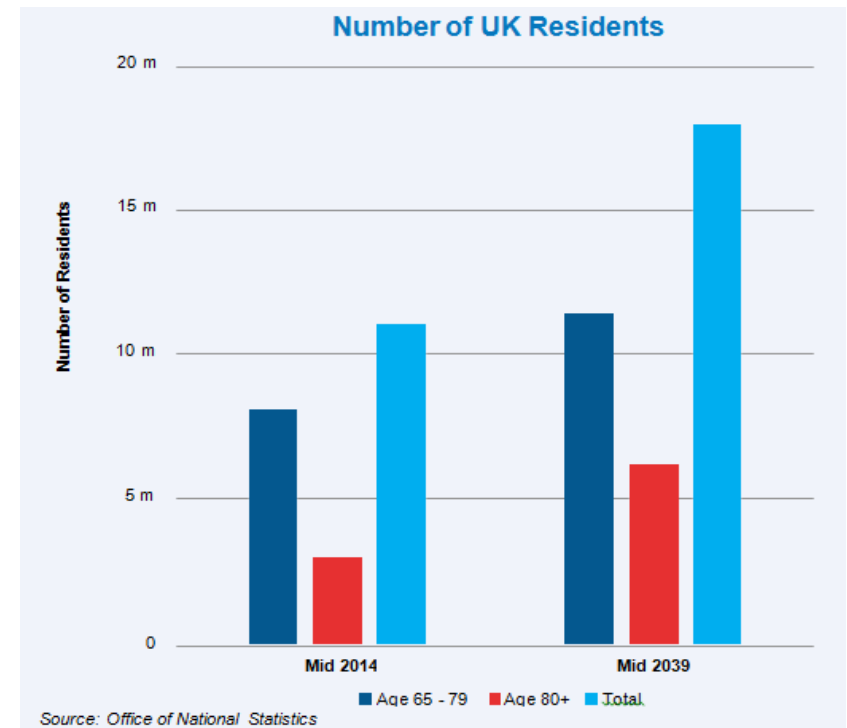
Strengthening value proposition with NHS beds under pressure





Demographics driving growth

- Dorset already has a higher than average population of over 65's and the over 65 population is forecast to grow by 50% over the next 25 years.
- Regardless of funding challenges today, Local Authorities will need to deliver services to more people both at home and in care home settings
- With people typically living longer but with more health conditions:
 - The number of individuals with more complex care requirements will increase
 - The ability to service the care pathway (step up and step down) will be of growing value



Sources: Dorset City Council
Knight Frank 2018 UK Care Homes Report
Knight Frank 2018 UK Healthcare Report





Funding growth - Sources

Bank debt - Mortgages, Working Capital Lending etc.

Leveraging property assets - REITs, Ground rents

Private Equity





Buoyant healthcare property market



Real estate healthcare investments remain high (2017 totalled £1.32Bn*)



64% of this came from REITS along with other quoted UK property companies, including Target Healthcare REIT who bought two Dorset care homes from Care Concern



Institutional appeal boosted by low yield conditions in both the bond and commercial property markets



Continued interest from property funds, e.g. Octopus Healthcare raised over £130m for their evergreen healthcare fund in January 2019

Investment is potentially available for growth





Continued consolidation in the market

Well funded financial investors are supporting new platforms for example...

- BC Partners backed Elysium Healthcare made multiple acquisitions over the last two years
- Apposite Capital acquired Swanton Care and its 24 homes as a new platform

...while larger groups continue to make acquisitions for example...

- CareTech acquired Selbourne Care for c. £17m (*Source: RNS Number 4004I*) to boost presence in the Midlands and South West
- Healthcare Homes acquired “The Old Vicarage” home near Sherborne in March 2018, taking the company’s portfolio of homes to 37





Value drivers - Opportunities at home

Financial

Occupancy - Churn & fill

Fee levels

Property

Staffing & agency

Run rate EBITDA

Non-financial

CQC performance

Acuity spectrum

Care pathways

Customer concentration





Strengthening value proposition with NHS under pressure nationally

People resident in care homes account for 1.46m emergency bed days with an estimated 35-40% of admissions avoidable (*Source: NHS England internal analysis 2018*)

The NHS Long Term Plan

- Dissolving the historic divide between primary and community health services
- More personalised care and PHBs
- Access to NHS Mail and the roll out of the EHCH model - NHS support in the care home
- More NHS funds directed towards primary medical and community health services

**The direction of travel is clear locally and nationally
Keep people out of hospitals, providing more care at home and
in care homes**





Opportunities for growth

Stuart Goodman, Corporate Finance





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Ref: 11019hp