

Clearview

Specialist Care

The specialist care market continues to attract a diverse range of investors who are looking to exploit market growth and consolidation opportunities, both of which have been enhanced by COVID-19.

Inside:

- Market Overview
- M&A Activity
- Looking Ahead



Market overview

This specialist care publication provides a comprehensive view of all forms of adult social care across residential and non-residential settings, encompassing services for adults with a physical or learning disability, physical or mental illness, substance misuse or acquired brain injuries. Care is typically commissioned by local authorities from independent providers, the vast majority of which is long-term support within a home ('care at home') or residential setting ('care home').

The volume and disparate needs of individuals requiring specialist care generates a market landscape in which a large number of highly varied companies operate, with over 14,800 independent providers across 25,800 locations in March 2020¹. According to LaingBuisson, the top ten largest care home providers account for just 16%² of the market, based on revenue. The market is occupied by a vast number of independent providers, with 75% of providers operating just a single care home, making up 38% of total beds². Similar characteristics are true of care at home providers, with 90% operating from one location³.

Coupled with consolidation opportunities, the market has attracted an increasingly diverse investor base, even before COVID-19, including infrastructure funds, property funds, with or without opco partner, and private equity.



In recent years, independent providers have found it harder to keep pace with the changing environment, a trend accentuated through COVID-19. Several factors have driven consolidation in the market, including:

- High occupancy from excess demand, restricting or subduing organic growth
- A highly fragmented market
- Increased specialisms
- Employee retention and recruitment challenges, including wage inflation, loss of staff due to Brexit and the pandemic, and the impact of vaccination status on staffing
- Working policies
- Access to operational synergies
- Pursuit of geographic expansion
- Onerous regulatory environment, with larger operators possessing more resources to overcome challenges
- Technological advancements, unlocking operational efficiencies (e.g. workforce

management, compliance, electronic care management systems) to improve margins and care quality

- Requirement for full 'one stop' solution care pathways

The long-term nature of placements, secured government funding and a lack of beds underpin the market's strong fundamentals. Coupled with consolidation opportunities, the market has attracted an increasingly diverse investor base, even before COVID-19, including infrastructure funds, property funds, with or without opco partner, and private equity (PE). COVID-19 has served to further this, as investors have sought to capitalise on an increased demand for services and operational and financial pressures faced by smaller operators.

1. C&AG's Report, The adult social care market in England, Session 2019–21, HC 1244, 25 March 2021.

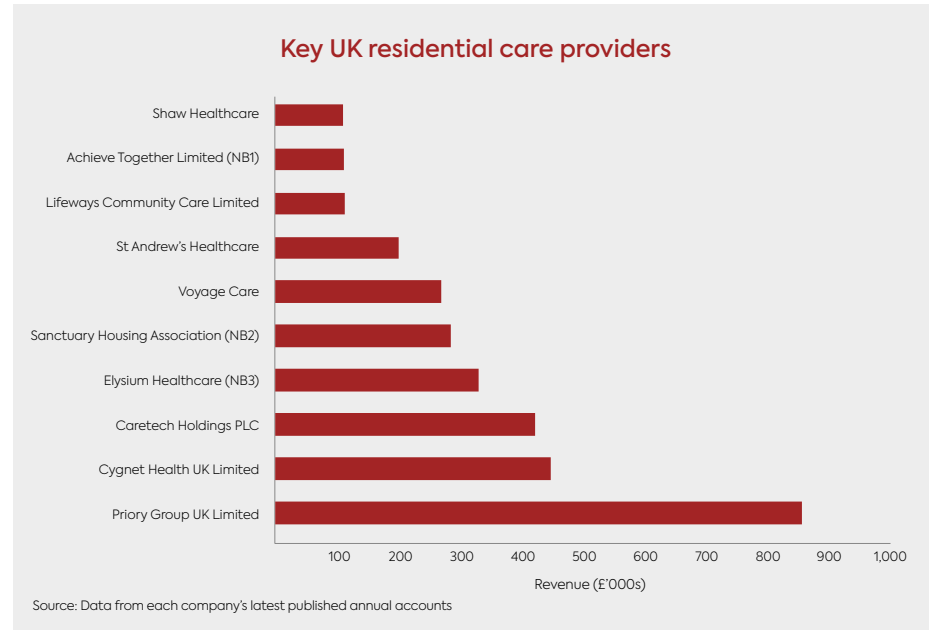
2. LaingBuisson: Adult Specialist Care UK Market Report 4ed

3. House of Commons Committee of Public Accounts: Adult Social Care Markets – Seventh Report of Session 2021–22



Key players in the UK market

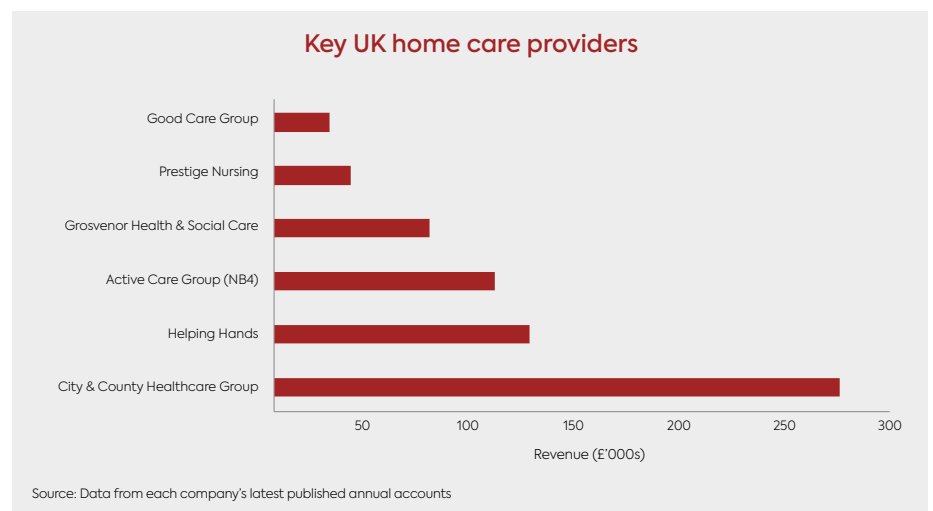
Residential care and adult home care are key segments within the UK specialist care market. The top players in these respective segments are presented below.



NB1: Achieve Together was formed through the merger of The Regard Group and the Care Management Group and includes revenue of its subsequent acquisition, Montana Healthcare

NB2: Sanctuary Housing Association revenue figure represents Care and Supported Living divisions only

NB3: Ramsay Healthcare announced in December 2021 it had reached an agreement to acquire Elysium



NB4: Active Care Group revenue excludes Huntercombe Group, with whom a merger was announced to have been legally confirmed in January 2022



Market sizing

According to latest estimates from Skills for Care, the UK adult specialist care market was valued at £25.6bn⁴ in 2020/21, having increased in size as COVID-19 has required the provision of significant short-term funding to help providers due to rising costs including PPE, cleaning, testing and insurance premiums, staff absences and a fall in care home occupancy from 90% before the pandemic to 80% by Feb 2021³. By March 2021, local authorities had received £4.55bn of unringfenced funding³. While in 2021-22, £1.1bn of ring-fenced funding had also been provided through the Infection Control Fund as well as an extra £270m to support COVID-19 testing³.

This funding has helped maintain stability in the sector during the pandemic, ensuring financial resilience among providers, as evidenced through a drop in voluntary care home closures from 482 in 2019 to 361 in 2020³. This has helped attract new investors, with the sector considered a defensible asset class.

Market sizing pre-COVID-19

In 2019/20, prior to COVID-19, total spend on local authority arranged care was £23.1bn¹. This represented a fall in spending, in real terms, of 4% compared to 2010/11, contributing to a reduction in the number of adults receiving long-term support, having fallen from 873,000 in 2015/16 to 839,000 in 2019/20.

Of the spending on long-term care in 2019/20, physical disabilities (£6.3bn) and learning disabilities (£6.0bn) accounted for the largest proportions. £5.0bn (79%) of physical support was spent on adults aged 65 and over, whilst in contrast, only £0.7bn (12%) of learning disability spend related to this age group¹.

Favourable demographics

Based on pre-COVID-19 patterns, by 2038 the number of adults requiring care is projected to increase by 29% for those aged 18–24 years and by 57% for those over 65, compared to 2018 figures¹. This continued increase in the number of patients and complexity of needs requires further funding, with costs expected to rise by 90% for 18–64-year-olds (to £18.1bn) and by 106% for over 64-year-olds (to £37.7bn)¹, estimates which are only likely to have increased as a result of the pandemic.

Funding

Despite the historical and projected increases in demand for specialist care, central government funding cuts have exerted financial pressure on local authorities. Over the past decade, care costs have increased by £8.5bn, far outweighing the total funding increase of £2.4bn¹. Additionally, provision of available funding is allocated on a short-term basis, restricting long-term investment decisions and innovation.

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Voluntary care home closures decreased from 482 in 2019 to

361 *in 2020³*

Oversight and reform

COVID-19 has highlighted the need for reform to address a number of long-standing oversight issues, including data limitations, visibility of funding flows and underinvestment in the workforce. Though new data collection legislation is likely to be passed to address existing data gaps and visibility issues, planned long-term reform in the sector has been delayed as attention has been focused on the COVID-19 response in the short-term.

Key recommendations

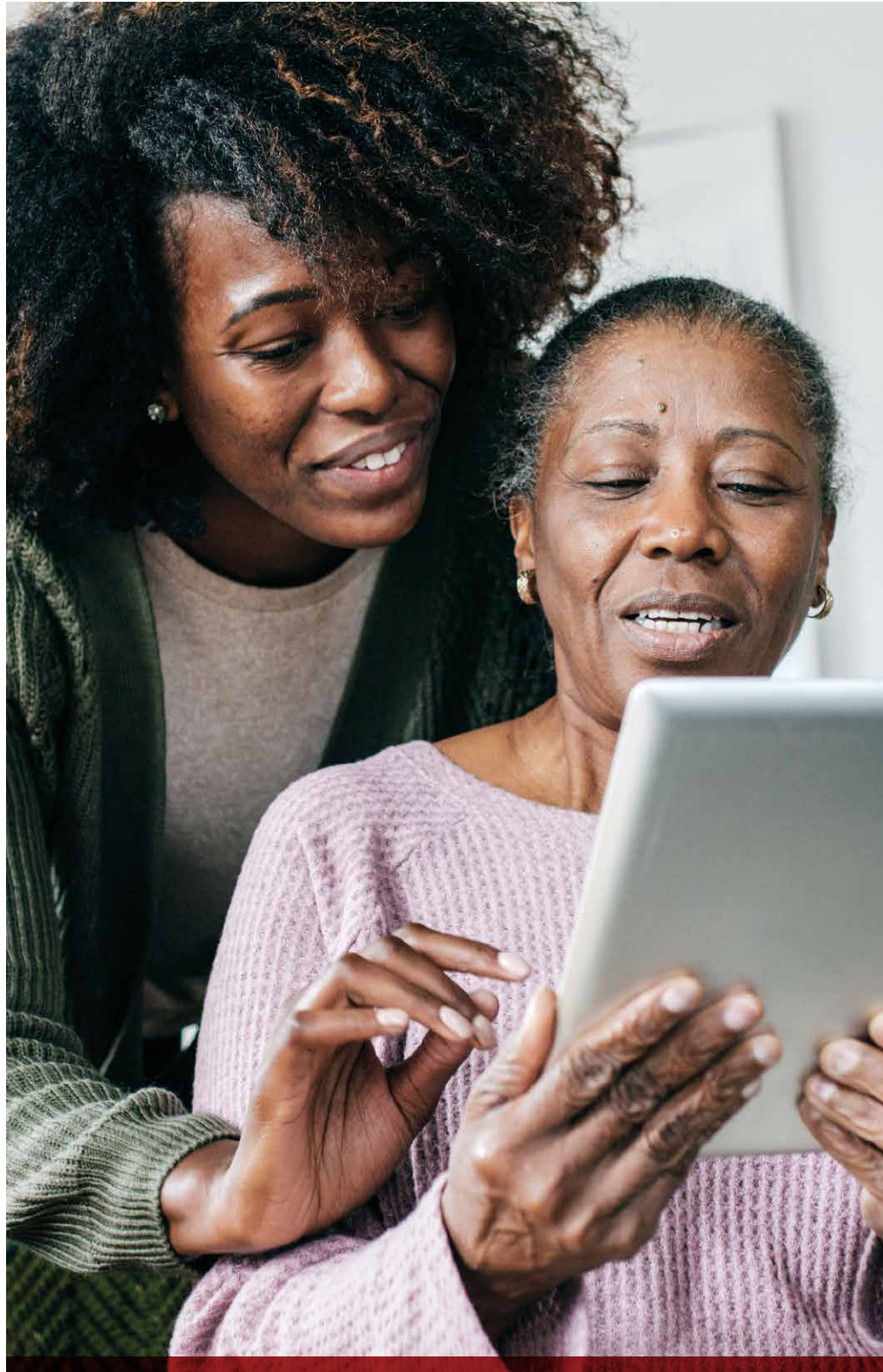
According to a House of Commons Committee of Public Accounts report, key reform recommendations include:

- Establishing a cross-government, multi-year funding vision for care
- Development of a workforce strategy, to aid recruitment, retention, and staff development
- Obtaining performance and cost data to assess system's performance as a whole
- Considering how best to improve visibility of and transparency over providers' financial sustainability and costs

1. C&AG's Report, The adult social care market in England, Session 2019–21, HC 1244, 25 March 2021.

2. House of Commons Committee of Public Accounts: Adult Social Care Markets – Seventh Report of Session 2021–22

3. Skills for Care – The Value of Adult Social Care in England



M&A activity



Investor overview

With strong long-term fundamentals and a fragmented landscape, the market presents an attractive opportunity for M&A. Favourable demographic trends and increasing property prices, underpinned by central government support, have generated significant interest among a broad range of investor types:

- **Trade:** Such buyers are continuously seeking consolidation opportunities to generate economies of scale, buying power and to capitalise on efficiency gains from central functions
 - o 19 trade deals have occurred since the start of January 2021
- **Traditional PE:** Focused on buying and developing a platform from which they can expand into new geographies and adjacent service lines
 - o Nine PE deals have occurred since the start of January 2021
- **Infrastructure funds and REITs:** Stability of long-term cash flows combined with non-cyclical growth has generated substantial interest from infrastructure funds and REITs, both before and during COVID-19. Such features form defensible investments with the additional security and upside potential of increasing property prices
 - o There have been seven acquisitions by infrastructure funds and REITs since the start of January 2021

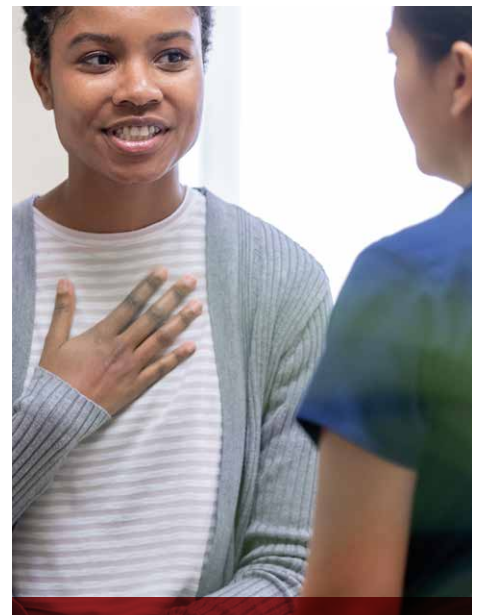
Long-term earnings stability and real estate ownership has also proved attractive to capital providers, with a growing pool of funders now available to investors; banks remain core whilst

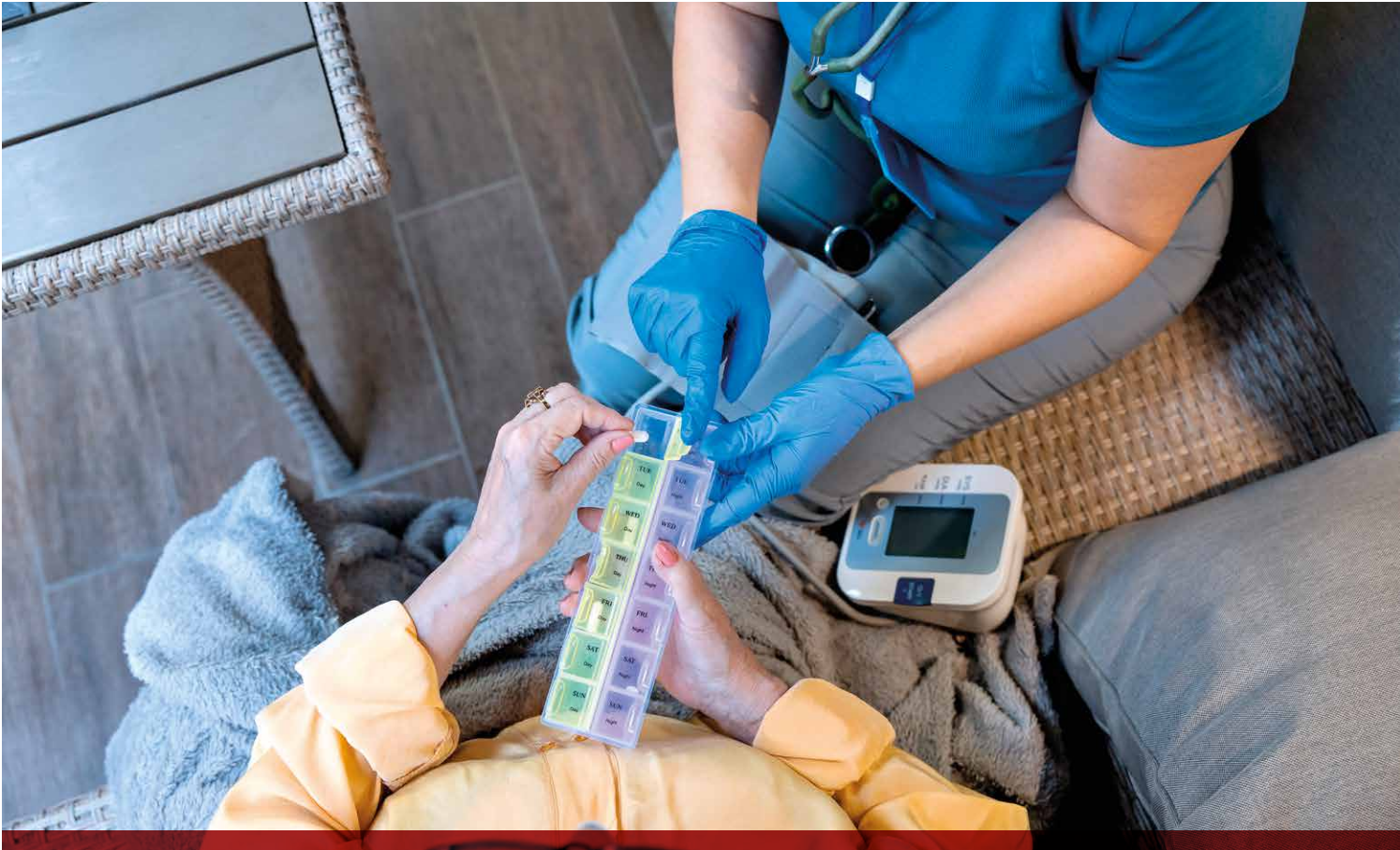
the appetite among debt funds has continued to increase as they pursue more defensible assets as a result of COVID-19.

Overview of recent deals

There have been several notable recent deals in the homecare market, a trend expected to continue as the demand for homecare increases due to the pandemic. Notable deals include Summit Partner's acquisition of City & Country Healthcare Group Limited, Clearwater International advised Palatine's acquisition of Routes Healthcare and, more recently, Weight Partners Capital's investment in Grosvenor Health & Social Care.

There has also been considerable M&A from a care at home (including supported living) perspective, such as Stirling Square Capital Partners' acquisition of Consensus Support Services Ltd, the merger of Reside Housing and Progress Housing, and Intrivia Capital's investment in Sequence Care Group.





Trade deals

- In January 2022, **Active Care Group** announced a merger with **Huntercombe Group** had been legally confirmed, creating a national provider of complex care, delivering local care pathways
- In December 2021, **Ramsay Health Care**, a global healthcare business headquartered in Australia, announced an agreement had been reached to acquire **Elysium Healthcare**, a leading UK-based mental health care provider for £775m from BC Partners. The acquisition represents an opportunity to expand into the UK, complementing Ramsay's existing UK hospital business and acute care operations in Australia, France, and Sweden
- In September 2021, two leaders in the supported living sector, **Reside Housing Association** and **Progress Housing Group**, announced confirmation of their merger, with the aim of becoming the leading UK provider of supported living, with a focus on individuals with autism or learning disabilities.
Reside owns or manages 1,450 supported living tenancies, in addition to Progress Housing's 3,100, with over 45 years of combined experience
- **City & County Healthcare Group Limited (C&C)** acquired **MC Care Holdings Limited**, an Apposite Capital asset, in March 2021. Formed in 2017, MC Care Holdings comprises Complete Care, a national provider of nurse-led complex care at home, MiHomecare, a domiciliary care provider and Noble Live-in Care, a live-in provider. This followed C&C having been acquired by Summit Partners (see PE deals below for details)
- **National Care Group Limited**, a residential care services provider, has grown through a buy-and-build expansion strategy, having made four acquisitions in 2018 and, more recently, acquired **Steps Residential Care Limited**, a residential care provider to people with learning disabilities, mental illness, and substance abuse problems, followed by **Stepping Stones Care Homes**, a provider of rehabilitation for people with complex mental health needs, in June 2020. The Group serves 1,300 adults across over 300 settings



PE deals

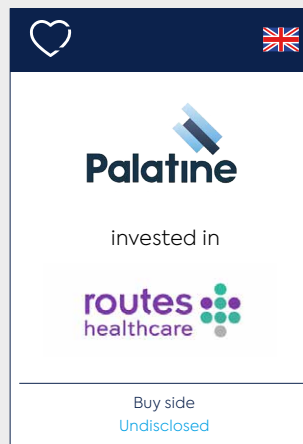
- In March 2022, **Blue Ribbon Healthcare Group**, a provider of residential and supported living services for adults with autism and learning disabilities, secured investment from **Queens Park Equity (QPE)**. Since forming in 2016, Blue Ribbon has successfully opened nine residential and supported living services across the North West, with investment providing the resources to provide additional services
- **Reuben Brothers** acquired **Avery Healthcare Group Limited** in February 2022, a senior living sector care provider, offering dementia care, nursing care, residential care, and respite care.
- In December 2021, **Grosvenor Health and Social Care**, a leading UK provider of homecare, was acquired by specialist healthcare services PE investor **Weight Partners Capital** for an undisclosed sum
- **Opposite Capital** announced its acquisition of **Health & Case Management Limited**, a provider of rehabilitation services for both physical and mental health needs, in November 2021
- **Sequence Care Group** (Sequence) received investment from **Intriva Capital** in September 2021. Founded in 2001, Sequence is a leading provider of supported living and residential care homes for adults with learning disabilities, employing over 760 people and operates across 16 locations in Southern England. This was Intrivia's first healthcare transaction, buying Sequence from PE group Horizon, which had owned Sequence since 2013
- In August 2021, **Mubadala Capital**, a UAE-based global ventures platform, bought **Witherslack Group**, an independent, special needs education schools and care programmes provider, for £590m
- In June 2021, a majority stake in **Routes Healthcare** (Routes), the UK-based homecare services provider, was sold by PE firm Key Capital Partners to **Palatine Private Equity**. Read more about this transaction below.
- **Summit Partners** acquired **C&C** in December 2020 following C&C's recent buy-and-build driven expansion, which included acquisitions such as Total Community Care, Advantage Healthcare and Stand Nursing. C&C is the largest provider of community-based home and social care services in the UK
- Acadia Healthcare Company, Inc., a US-based provider of behavioural healthcare services, announced in December 2020 it had agreed to sell **The Priory Group** to **Waterland Private Equity** for £1.08bn. The Priory Group supports over 30,000 people a year in the UK across 450 facilities, with a focus on mental health, addiction rehabilitation and adult care. In combination with Median Klincken, a Waterland portfolio asset, Waterland intends to create a European leader in rehabilitation healthcare
- **Consensus Support Services Limited** (Consensus) was acquired by **Stirling Square Capital Partners** in December 2020. Consensus operates more than 90 services which provide specialist residential care and supported living services to nearly 600 individuals with learning disabilities, autism spectrum disorder and other complex needs
- In November 2020, **Exemplar Health Care** (Exemplar), a leading UK-based provider of high-acuity care to individuals living with complex physical and mental needs, was bought by **Ares Management Corporation**. Exemplar was previously bought by Agilitas Private Equity in 2016 and has homes in Yorkshire, Humberside, the Midlands, the North East, and North West

- **Aspirations Care** was acquired by **Elysian Capital**, via its Elysian Capital II fund, in June 2019. Having been acquired by August Equity in 2012, Aspirations Care had grown to over 900 employees, providing supported living services to adults with learning disabilities and complex needs across the UK
- **Apposite Capital** acquired **Swanton Care and Community** (Swanton) in July 2017. At acquisition, Swanton operated 24 specialist residential care homes, focused on adults with complex learning disabilities, mental health disorders and acquired brain injuries. Swanton provided over 250 registered beds and employed c.780 people. Since 2017, a buy-and-build strategy has comprised of several further acquisitions including:
 - o **Courtyard Care** in January 2019, which operates a group of leading children's specialist residential homes across North West England
 - o **Values in Care** and **GRS Care Limited** in May 2019. Both businesses are specialist adult residential and supported living providers in Wales
- o **LH Social Care**, which provides care at home, and **Lavender Group Homes**, a group of residential care homes in Northamptonshire, both acquired in October 2021
- **Salutem Healthcare**, a leading UK residential healthcare investor for those with learning disabilities and high acuity needs, has also pursued a buy-and-build strategy in recent years. Acquisitions include:
 - o **Pathways Care Group** and **Modus Care Group** in April 2017. The companies support children and adults with a wide range of physical and learning disabilities
 - o **Clearwater Care**, a Synova Capital asset, in November 2017. Clearwater Care provides specialist care services for people with complex needs and severe learning disabilities in both a residential and supported living setting
 - o Transfer of disability charity **Scope's** services in December 2017, including three education facilities, 38 care homes and c.1,300 staff

Case study

Clearwater International advised Palatine Private Equity on its investment in Routes Healthcare, a leading provider of specialist person-centred health and homecare services.

Headquartered in the North-West, Routes operates from 14 service centres, employing 120 operational and management staff, along with 1,000 carers. The business provides specialist complex care packages for people with long-term health conditions, clinically-led enhanced homecare packages and end of life care, enabling people to spend their final days at home.



Infrastructure funds and REITs

- **Civitas Social Housing**, the first supported housing REIT dedicated to investing in social care housing and healthcare facilities now has over 1,000 properties having made numerous recent acquisitions, including:
 - **Four supported living properties** in the East of England in June 2021
 - **10 supported living properties** in Hertfordshire, Essex, Suffolk, and Wales in May 2021
 - **15 supported living and care facilities** in South Wales in April 2021
 - 72 healthcare facilities from **Heathcotes** in November 2020, providing specialist residential accommodation for adults and children with learning disabilities, mental health and associated complex needs
 - **New Directions Flexible Social Care**, a step-down supported living business with seven properties and 48 registered beds across Hertfordshire, which Civitas purchased alongside TLC Care Homes in March 2020
 - **FieldBay**, a large chain of specialist care homes operating across South Wales in April 2019
- In January 2022, **Voyage Care Group**, owned by Partners Group and Duke Street, announced it had been acquired by **Wren House Infrastructure**, a London-based infrastructure fund. Voyage Care employs 10,000 staff across the UK and provides supportive care nationally for people with learning and physical disabilities, brain injuries, autism, and complex needs
- **Ancala Partners LLP** (Ancala), an independent infrastructure investment manager, acquired **Ludlow Street**,



a specialist care and mental health provider, in January 2022. This will become part of the **Holmleigh Care Group**, which was acquired by Ancala in April 2020. Founded in 2000, Holmleigh operates across 31 homes when acquired and provides essential residential care, supported living and domiciliary care services to adults with a varied range of disabilities and challenges

- A number of notable deals also took place prior to COVID-19, including:
 - In December 2018, Australian-headquartered **AMP Capital** acquired **Care Management Group**, a UK-based social care company, for c.£200m, in addition to **The Regard Group**, one of the UK's largest specialist care providers at the time, which was purchased from Montreux and Macquarie. The two acquisitions were merged post-transaction to form **Achieve Together** which is now a leading UK specialist care provider for adults with learning difficulties and mental health issues. The combined entity has a total of 2,300 beds across 340 facilities, having

purchased **Montana Healthcare** in 2020, a portfolio of specialist care facilities, and **United Health Limited** in August 2021, a leading provider of specialist support for people with learning disabilities, autism and associated complex needs

- In October 2018, Caledonia Investments plc, a UK-based listed investment trust and private equity firm, sold **Choice Care Group**, a UK-based leading provider of residential and supported living services for people with learning disabilities and mental health conditions, to **iCON Infrastructure** for £99.4m. In March 2021, Choice Care Group then acquired Hertfordshire-based specialist care provider, **Inspiration Care Limited**
- **Antin Infrastructure Partners**, a leading French infrastructure investor, acquired **Kisimul**, a UK-based provider of care services for people on the autism spectrum, in October 2017. The sale is thought to have been worth over £200m

Overseas

- In December 2020, **Korian**, the French nursing care provider, announced it had completed the acquisition of **Inicea** from Antin Infrastructure Partners for over £300m. Inicea is one of France's leading private operators dedicated to psychiatric care, consisting of 11 clinics with over 1,200 beds and day care places. Korian has also made a number of subsequent acquisitions in 2021 including:
 - **Berkley Care**, a Berkhamsted, Hertfordshire-based luxury care home group in March 2021
 - **ITA Mental Health**, the third largest player in mental health in Spain
 - **Gruppo Sage**, Italian family-owned mental health clinics operator
 - **Leonardo da Vinci Centro Medico Diagnostico** outpatient centre and the **CDC Leonardo surgical clinic** in Florence
 - **Santa Croce**, an Italian family-owned medical and healthcare service group
- Stockholm-headquartered **Ambea AB**, which provides residential care services for people with special needs across Scandinavia, has made several recent acquisitions including:
 - **Aleris Group AB's Aleris Care** business operations in Sweden, Norway, and Denmark in Jan 2019 for €249m, making Ambea the largest care provider in the Nordic region
 - **Casablanca Bo & Erhverv** and **Vivamus**, two Danish care providers for disabled children, in December 2019, acquired through Ambea's Danish operations, Altiden Netværk ApS
 - **EKKOfonden**, one of Denmark's largest providers of social care, in January 2021
- **BetaMed S.A.**, the largest medical company in Poland providing long-term care, both in the patient's home and through its facility in Chorzów, was acquired by French healthcare provider **Air Liquide Healthcare** in September 2021
- In June 2021, **Orpea Netherlands B.V.** acquired **Zorggroep't Zicht B.V.**, a Dutch provider of housing and care for people who suffer from autism, a psychiatric disorder, or other disabilities. This followed its acquisition of **Brindley Healthcare Limited** in September 2020, an Irish nursing home operator
- **Apax Partners SAS** acquired **The NL Mental Care Group B.V.**, a Dutch mental health care service provider in the Netherlands, in January 2021
- **iCON** acquired **Nua Healthcare Services Limited** in January 2021, the largest private specialist residential care provider in Ireland, with a portfolio of over 50 residential homes

In combination with projections of sustained increases in demand and secured long-term government funding, there is significant latent market opportunity for the acquisition of highly defensible assets.







Looking ahead

The enhanced impact of COVID-19 on key consolidation drivers ensures the trend will endure in the medium to long-term. In combination with projections of sustained increases in demand and secured long-term government funding, there is significant latent market opportunity for the acquisition of highly defensible assets.

Consolidation drivers likely to persist in the medium to long-term include:

- Growth in volume and diversity of investors seeking to exploit strong long-term fundamentals of a fragmented market
- Enhanced Care Quality Commission (CQC) oversight, requiring further investment in staff, training, and compliance, with providers needing to demonstrate they are appropriately equipped to deliver requisite service levels
- Long-standing recruitment challenges such as low wages, short-term careers and lack of career structure, and sector dependence on overseas workers, all of which have been exacerbated by the impact of COVID-19
- Technological advancement, with those firms most advanced likely to receive investment and serve as a platform to expand and consolidate as such technology is rolled out further

These market characteristics and trends underpin the attractiveness of the market to investors and show no sign of abating in the light of COVID-19.

Our international team

With offices in Europe, the US and Asia, [our healthcare team](#) can deliver seamless, integrated global advice to owner-managed, corporate and private equity clients. Our team is supported by a number of high-profile senior advisers who are all former top tier executives with relevant product knowledge and a far-reaching network of contacts.



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