

## How do we assess the healthcare market?

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## What do we look for?

### PROPERTY



- + Location
- + Specification
- + Tenure
- + Consents
- + CAPEX?

### BUSINESS



- + What sort of care?
- + Demographics
- + Competition
- + P&L dynamics
- + Regulatory compliance

### THE PEOPLE

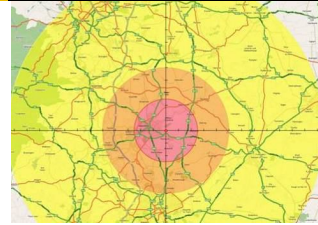


- + Assess quality + experience
- + Existing operator vs. first time buyer
- + Skills sets & missing links
- + Succession plan

## Assessment factors – Property



- + Location is king
- + Good specification is essential but beware of poor sub standard conversions or homes exposed to obsolescence risk
- + Size does matter (30 beds +) .....in terms of achieving economies of scale
- + **Capex can be the ticking time bomb**



## Assessment factors – Business



- + **Type of care provided** – residential vs. nursing vs. dementia?
- + **Private or local authority funded** – if the latter, beware of cash strapped local authorities!
- + **Competition and demographics** will drive demand
- + **Good MI** for each home essential setting out KPIs
- + **Quality of management** at head office and home level?
- + **Quality of staff** at home level - NVQ qualifications, rates of pay, do they go the extra mile? Any reliance on staffing agencies?
- + **Financial performance**



## Assessment factors – Financial performance

### Key Performance Indicators

	<span style="color: red;">●</span>	<span style="color: orange;">●</span>	<span style="color: green;">●</span>
Occupancy	< 75%	75% - 85%	> 90%
Staff costs	> 65%	55% - 65%	< 55%
Other costs	> 20%	15% - 20%	< 15%
EBITDA	< 20%	20% - 30%	30%

Source: Christie + Co Example

### Average Fee Rates (£)

	<span style="color: red;">●</span>	<span style="color: green;">●</span>
Residential	340	400
Residential EMI	390	450
Nursing	400	500
Nursing EMI	500	700



## Assessment factors – The Regulator

- + NCSC became CSCI became CQC within five years
- + CSCI was very formulaic, CQC devised The Outcomes
- + Old star rating system scrapped but data still available
- + Zero star homes cannot currently be re-rated
- + If you were a 2 or 3 star, it could be up to three years old and no longer a fair reflection
- + All businesses were due to be reregistered under the new regime by 1 October
- + Current regime is slowing sales processes generally
- + Assessing a home against The Outcomes is more subjective than the old National Minimum Standards
- + Predicting future operational downturns triggered by non-compliance is therefore harder
- + Poorer quality buildings may also be able to survive longer than under the old Standards



The Outcomes:

Treating people the right way  
Care, treatment and support  
Safety  
Staff  
Service levels  
People running the service



Our new rules for checking health and adult social care services

Original document title: Guidance about a register of Essential Standards of quality and safety, and the process of registration with the section 25 regulations of the Health and Social Care Act 2008.

easy read

## Assessment of current market conditions



- + Days of the forward run rate are long gone (for now at least)
- + MI - Up to date accounting information vital.
- + Trading conditions are more challenging especially for local authority funded residential homes
- + Local authority budgets are under pressure
- + Sales taking longer to achieve due to funding and CQC timescales
- + Funding is available but more serviceability



## What is selling and what's not?



- + Most recent sales are distressed or managed exit
- + Smaller homes under 20 registration hit hardest
- + Most active buyer is the local operator
- + Markets are stable, good demand for quality with high end fees
- + Venture Capitalist funds looking for Specialist Care and Dom Care



## Case studies



### 33 Registration Residential Care Home, Guildford - Sold in 2010

- Fee Range £585 - £700 pw
- Turnover over £1m pa
- Run Under Management
- Planning Permission for further 7 rooms
- Close to Town Centre
- Bought by Surrey based operator

### 6 Registration LD Home with 2 Bed Supported Living Annexe, Sutton - Under Offer

- Average fee £1873 pw + £843pw for Annexe
- Turnover £628,000 pa
- Run Under Management
- Close to Town Centre
- Under Offer to Hertfordshire based operator



## The valuation of established care home businesses

What multiple for:



8 - 9 x EBITDA



5.5 - 8 x EBITDA

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So where is the market currently?

Christie+Co  
BUSINESS INTELLIGENCE

Christie + Co Care Price Index Movements since 2004

0.4% movement in average prices

Year	Percentage Change
2005	14.5
2006	17.4
2007	12.2
2008	-16.9
2009	-11.0
2010	0.4

Source: Christie + Co Business Outlook 2011

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