

Private equity

Why it matters to the not-for-profit sector

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Agenda

- **Not-for-profit**

A different model, but it doesn't operate in a vacuum

- **Private equity & residential care**

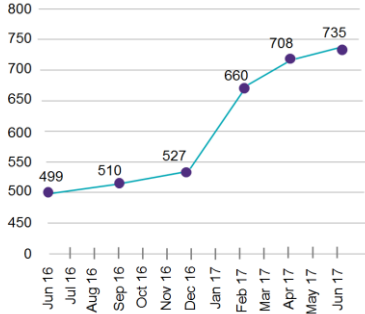
Been there, done that (and what did we learn?)

- **Private equity & home care**

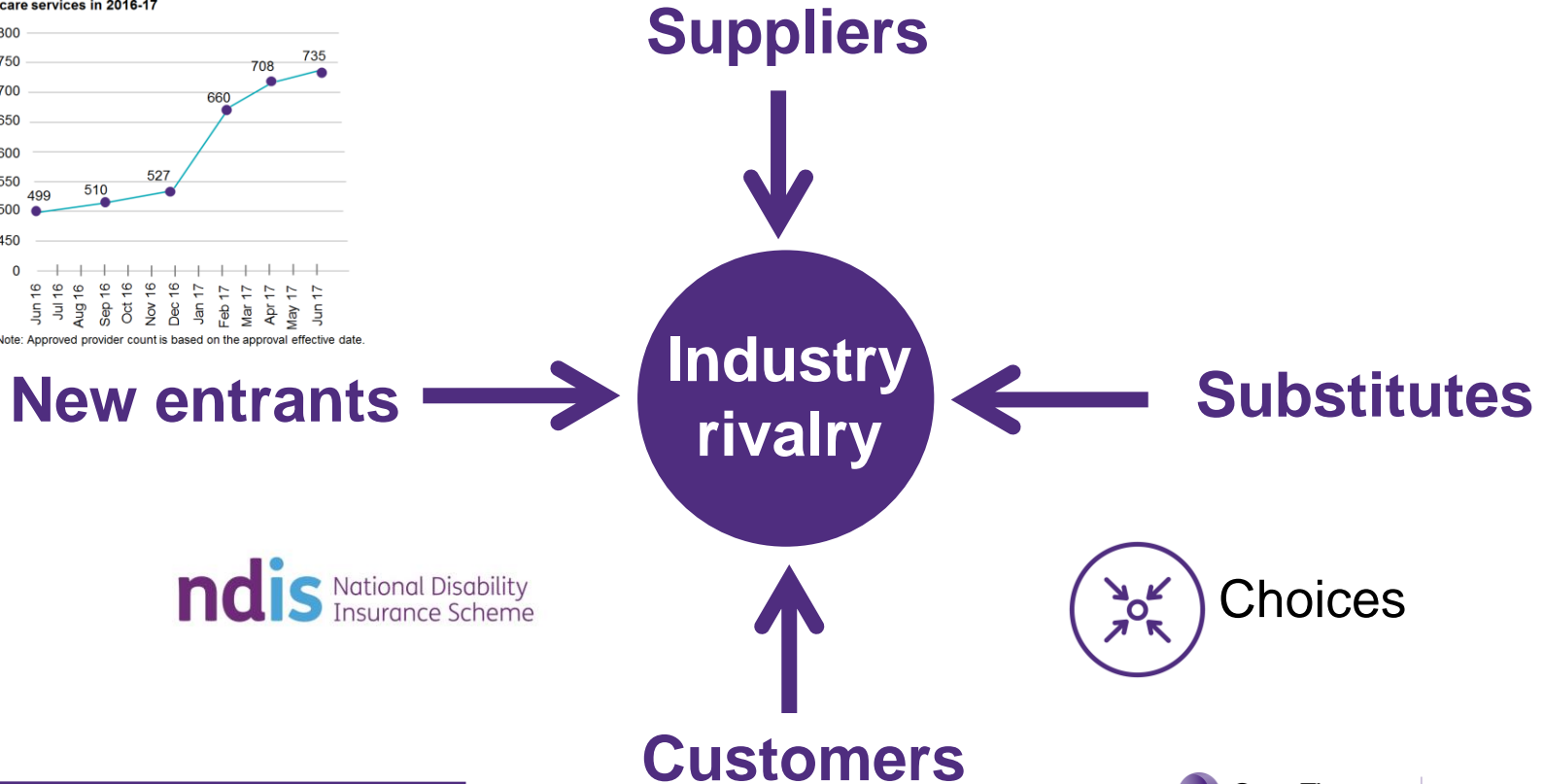
The next wave, the issues (and options for the NFP sector)

Porters Five Forces

Number of approved providers of home care with home-care services in 2016-17



Note: Approved provider count is based on the approval effective date.



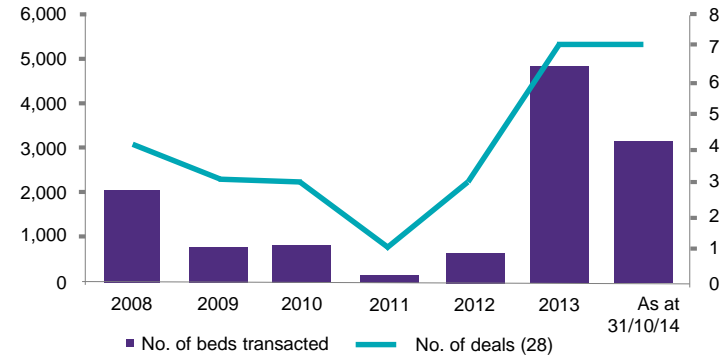
ndis National Disability Insurance Scheme

Private equity & residential care

BEEN THERE, DONE THAT

- A number of private equity funds targeted the residential care segment in 2012 / 13.
- Along with Bupa's acquisitions, over 100 facilities and 9,000 beds were acquired.
- Japara, Estia and Regis benefitted from being listed on the ASX – seeing their share prices increase ~50%.
- PE funds involved achieved significant returns.
- In mid 2016 doubts about the level of government support caused the market to lose faith and mark down the listed players.

M&A – yearly trends*

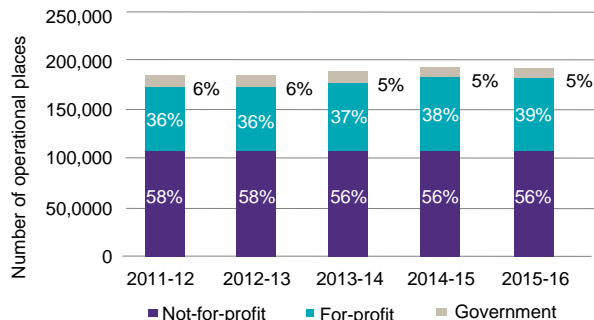


Private equity & residential care

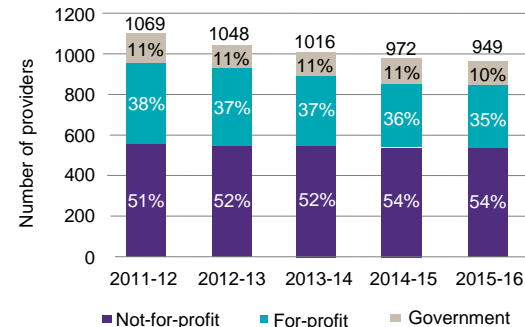
WHAT DID WE LEARN?

- The injection of external capital into the market drove a consolidation of operators in the for-profit segment of the market.
- The absolute number of not-for-profit places held stable but its share of total places contracted slightly.
- A focus on earnings saw profitability improve for both for-profit and not-for-profit operators.

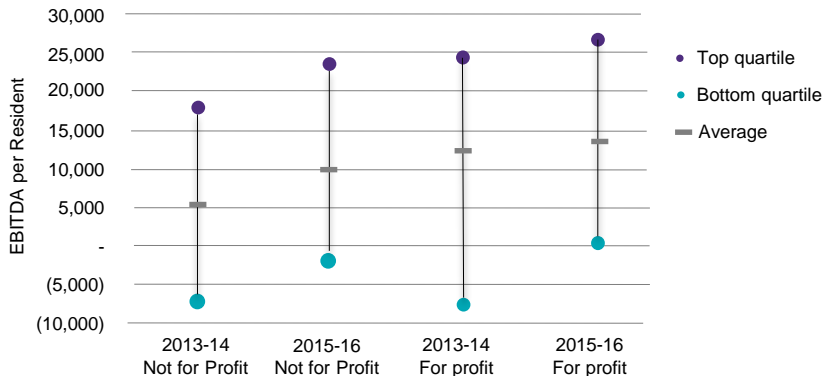
Operational places, 2011-12 to 2015-16*



Provider numbers, 2011-12 to 2015-16*



EBITDA per Resident – FY14 to FY16



* Aged Care Financing Authority

Private equity & home care

THE NEXT WAVE

The Government sees home care as an efficient way to meet the needs of ageing baby boomers and is shifting funding in this direction.

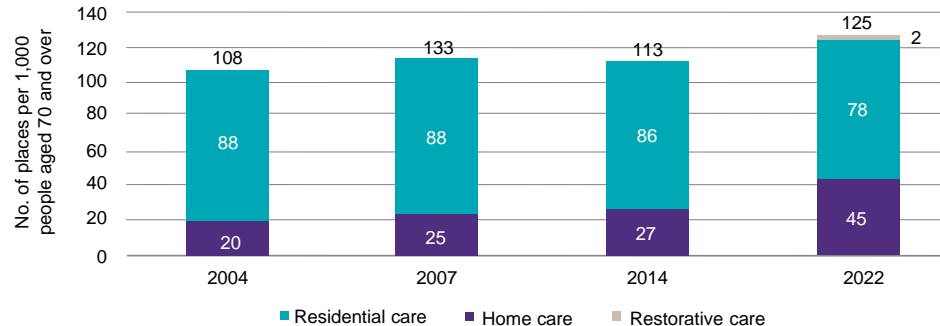
Private equity sees...

- this shift in the funding mix
- the consumer appeal of ageing in place
- the complementary opportunities of the NDIS, mobile doctors, home services

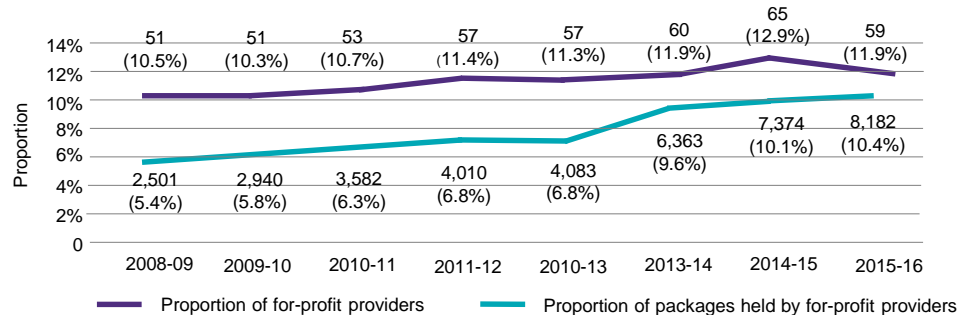
...as tremendous opportunity for near term growth.

Increase in target provision ratios, 2004 – 2022*

* Aged Care Financing Authority



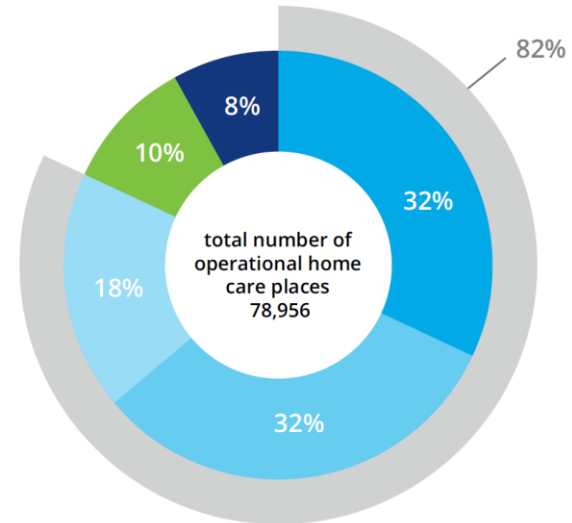
Number and proportion of for-profit providers and packages, 2008-09 to 2015-16*



Private equity & home care

WHAT'S DIFFERENT THIS TIME?

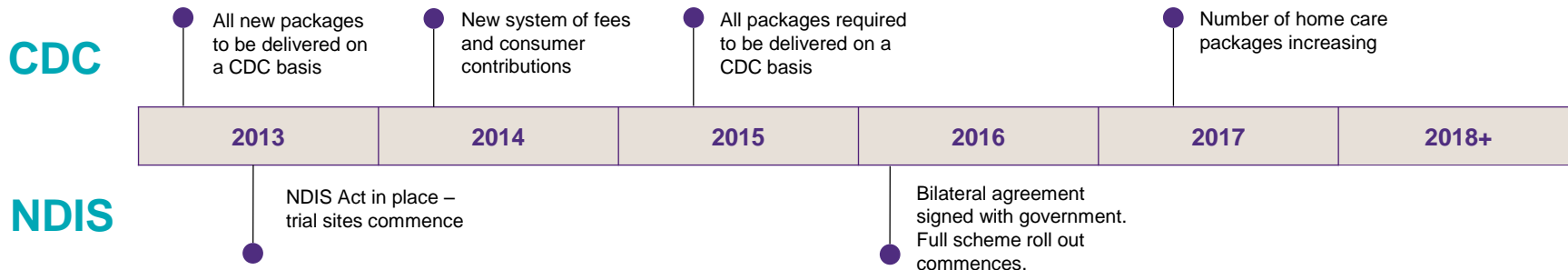
- In residential care, for-profit operators controlled over one-third of the number of places – providing an entry point for private equity via acquisition and organic growth.
- In home care, for-profit operators control only 10% of the number of places – meaning that entry options are far more limited.
- Private operators are therefore expected to be more aggressive in securing new places and more innovative in terms of product offerings in consumer funded and aligned markets.



*Aged Care Financing Authority

Home care

ARE WE AT A POINT WHERE THERE IS ENOUGH CERTAINTY TO INVEST?



- An increase of 47.3% (236) in the number of approved home care providers during 2016-17
- Average EBITDA per package dropped by 6.7% to \$2,086 from 2015-16 to 2016-17, however CDC came in at the end of February 2017, so the real EBITDA per package could be lower
- Consumers of home care co-contributed an additional \$160m for their own care services
- 66% of residential facilities reported skills shortages
- The speed of the NDIS roll out has put the scheme's financial success and sustainability at risk

Home care

CAPABILITIES REQUIRED AND NOT-FOR-PROFIT POSITIONING

- **People** – source, train, motivate & deploy
- **Clinical / technical** – standards & systems
- **Care delivery** – models and methodologies
- **Logistics** – allocation, scheduling & operations
- **Culture** – mission and purpose
- **Customer relationship management** – management of customer touch points
- **Customer acquisition** – sales culture
- **Marketing** – awareness and positioning
- **Revenue optimization** – extracting maximum government and consumer contributions



Models for not-for-profit participation

- Invest in full capability – own and operate at all levels.
- Adjunct to other operations – own customer relationship, but outsource care delivery to a third party.
- Be the back end capability – assemble the back end capabilities to deliver care, but leave the front end marketing, customer acquisition, etc. to others.
- Franchise – own the front end capabilities, provide systems & outsource delivery to independent franchisees.



Some cautionary tales

UK problems / issues – commercial entities rushed in and care outcomes not good.

- 7,500 home care providers for 64m people in the UK, one for every 8,533 people
- 2,099 home care services for 24m people in Australia, one for every 11,434 people

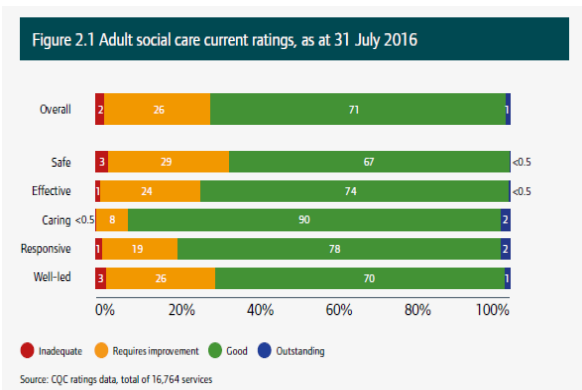
Europe is struggling too. Social care still not rating as highly in the UK as they would like.



*The Conversation August 22, 2017



*The Guardian July 16, 2011



Key take-aways

The input of external capital into the industry can drive an increased focus on efficiency, competitiveness and returns for all industry participants.

The impact of external capital in the home care market is likely to be far more dynamic.

With acquisition opportunities being limited, growth will be driven by aggressive organic expansion and a fierce battle for new consumers / spend

Some private operators are seeking capital from PE firms to fund growth.

There are new capabilities required to be successful.

Where will you position yourself to protect your existing business and continue to be relevant to your customer / stakeholder base?

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