Eclipse
Corporate Finance

M&A in the children's services market

Key financial themes within children's services

The children's services market continues to see significant levels of M&A

Private equity interest

- Continued investment into the sector from private equity houses, with most large groups now private equity backed
- The sector is seen as generating strong margins and offering opportunities for market consolidation
- The sector's resilience to the COVID-19 pandemic has fuelled interest from new entrants

Planning difficulties for larger homes

- A challenging environment for obtaining planning permission for facilities of over 3 beds is stunting growth from new property acquisitions
- This has the knock on impact of forcing larger players to look to company acquisitions for growth

Education provision remains value generative

- The provision of residential education remains positive, both in terms of placements (ticks both boxes for local authorities) and for corporate valuations

Acquisitions highly competitive

- Given the number of private equity backed companies seeking growth through acquisitions, processes are often highly competitive, driving up prices
- Acquirers are understanding of cost increases caused by COVID-19 and valuations have not declined due to demand

Active acquirers in the children's services sector

Swanton – Every Moment Matters
SALUTEM
Witherslack Group
Sandcastle Care – Caring for the future
Potens – supporting YOUR choice
Young Foundations
phoenix – Nurture › Flourish › Grow
Cavendish Education
SENAD group – Specialist education and care.
Kisimul
Edison Education
Orbis – education & care
Kedleston Group
Elysium Healthcare
Pebbles Care – A stepping stone to a brighter future
Outcomes First Group – Innovators in care and education
ACORN – Better days, Better lives
Aurora
compass Children's Homes
keys group
horizon care & education

Valuation drivers

Valuation within the children's services market is driven by a handful of key factors

Quality

- Ofsted ratings are the key identifier of quality for acquirers of residential children's homes and SEN schools
- "Good" and "Outstanding" ratings will attract premium multiples, whilst "Requires Improvement" or "Inadequate" ratings will materially hamper valuations

Fee levels

- Higher fee levels will drive greater multiples
- Complexity of care is particularly relevant, with higher "off framework" fees particularly attractive to acquirers
- Proven ability to charge additional hourly rates for 1:1/2:1 care is also desirable

Occupancy

- High occupancy levels are a sign that a residential home/school is operating effectively
- Consistently high occupancy levels will therefore drive greater earnings multiples

Staffing

- Adequately staffed homes/schools will drive higher margins
- Labour/fee ratios are therefore a key metric for acquirers
- Excessive use of agency staff is often seen as an area of concern

Property

- Clearly freehold property ownership will attract higher multiples than leasehold
- Well invested properties will be favoured, with acquirers reducing prices for any perceived "catch up capex" required
- Basic issues such as property access and utilities should be considered

Scale

- The scale of a business (whether nationally or within a particular region) will also impact the valuation – generally larger businesses generate higher multiples
- This applies to both the number of registered beds/places and the number of sites that a business operates

Why Eclipse?

Specialist advisors to the UK Health & Social Care sector

Our Experience

Young Foundations	Advisor to Young Foundations on the acquisition of a North East based residential children's home and SEN school
MHC – Positive outcomes for people	Strategic advice and financial consultancy services to Mental Health Care UK, a provider of specialist care services
Overseas Investor	Retained advisor to an overseas investor on UK acquisitions of residential learning disability homes (confidential)
Cornerstone Healthcare / Ignite	Management buy-in of Cornerstone Healthcare, a provider of specialist residential homes, backed by Ignite Growth*
Raphael Healthcare / Elysium Healthcare	Sale of Raphael Healthcare, a provider of low secure mental health services, to Elysium Healthcare*

*Deal completed whilst in previous role prior to founding Eclipse

Eclipse Corporate Finance

High quality, hands-on advice

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Acquisitions

Management Buy-outs

Debt Raises

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