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Impact of COVID on M&A in
the care home market

What will COVID-19 mean for M&A in the care sector?

COVID-19 is likely to sharpen the focus of M&A onto certain areas of the care sector

Focus on purpose built stock

- COVID-19 has highlighted that many older properties are not fit for purpose as modern elderly care homes, due to an inability to effectively manage infection control
- This will further enhance the focus on new and purpose built homes across the elderly sector, whether through development or acquisition
- The age of properties, however, will still be deemed less relevant within specialist adult services (LD, mental health etc.) due to the limitations around registered beds in each home and acquisitions of older properties will therefore continue this area

Activity in private pay & specialist care

- The government has had to borrow heavily to fund the significant package of support to businesses and employees
- The pandemic has rightly shone a light on the importance of the social care sector, however this new debt burden means that a considerable increase to social care funding in the short-term is unlikely
- Combined with this funding pressure, a material increase in the National Living Wage to £8.72 in April 2020 continued to squeeze the margins of operators
- These dynamics are likely to further increase the appeal of operators with limited reliance upon local authority frameworks – in particular private pay elderly care providers and higher acuity specialist care homes

Willing vendors post COVID-19

- Given the numerous challenges currently faced by care home operators, many smaller operators will simply be relieved to get through the pandemic and achieve some form of normality afterwards
- Unfortunately those businesses severely impacted by the pandemic and unable to release capital from their businesses to fund short term staffing/PPE cost spikes, will be forced into distressed sales
- For the operators that do safely navigate through COVID-19, a number of private owners will consider selling in order to safely extract value from the business and to avoid facing challenges of this nature in the future

Valuation gap

- Whilst there is likely to be a number of willing sellers post COVID-19, the key barrier to deals is likely to be that vendors' value expectations will not have changed materially from before the crisis
- Acquirers will need to assess the profitability of the business prior to the pandemic and consider applying valuation multiples on a "normalised" basis after removing short term profit declines as a result of COVID-19
- Earnout structures will be heavily utilised to bridge this value expectation gap, with a portion of consideration being deferred until certain financial criteria are met and a return to normal levels of profitability is achieved



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