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M&A in the fostering market

Key financial themes within fostering

The fostering market continues to see significant levels of M&A

Continued growing demand

- With the number of looked after children now over 80,000 and continuing to rise, there is a general consensus that fostering offers the most appropriate environment for most children in care, while also being more economical for local authorities than residential homes
- A lack of trained and approved foster carers remain the constraining factor, and Independent Fostering Agencies ("IFAs") continue to take market share from local authorities due to superior recruitment and training processes, combined with more attractive remuneration packages for carers

Consolidation amongst largest IFAs

- Consolidation amongst the largest IFAs is ongoing, with private equity backed players executing buy and build strategies in the sector
- The top 6 companies now account for 51% of all IFA households, and 18% of fostering households nationally

Rest of the market remains fragmented

- Outside of the largest players, however, there is a significant drop in scale, with a large tail of smaller regional providers
- With such significant focus on the largest players in the market in recent years, there have been few new entrants growing through acquisition
- The continued strong demand drivers and stagnant local authority provision is likely to see other smaller players looking to consolidate on a regional basis in the future

Largest active acquirers in the fostering sector



Outcomes First Group
Innovators in care and education



Capstone
foster care



Valuation drivers

Valuation in the fostering sector is driven by a handful of key factors



Quality

- Ofsted ratings are the key identifier of quality for acquirers of IFAs
- "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 as they are generally a sign of sought after specialist provision
- Clearly this also dependent upon the number of active placements to ensure that the fee levels are accepted by local authorities



Carers

- Given the scarce supply of foster carers, an established network is highly valuable to acquirers
- A demonstrable pipeline of future carers to support organic growth is also value additive



Geographical reach

- Broad geographical reach across local authority boundaries is seen as attractive
- This allows a seamless process for out of area placements, in addition to diversifying the range of local authorities being served



Specialisms

- Service specialisms are often a key differentiator for IFAs and are therefore sought after by acquirers
- As noted above, the ability to demonstrate true specialisms allows placements of young people with greater needs and higher fee levels



Scale

- The scale of a business will also impact the valuation – generally larger businesses generate higher multiples
- This applies to both the number of placements and the number of sites/branches that a business operates



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