Children's care triggers bumper returns for private equity owners [1]

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EXCERPTS

Despite the struggles of many local governments to provide adequate care, children's care providers are scrutinizing to provide bumper returns to private-equity investors.

Parliament is legally required to find care for children who need it, and as demand rises during the pandemic, commission income and pre-tax profits grow primarily across sectors owned by private equity. Did.

According to a survey of the top 20 companies in this sector by Revolutionary Consulting of the Municipal Association, the profit margin of orphanages, including foster parents, homes and residential special schools, has increased from 16.3% to 17.6% over the past year. ..

Returns place the sector in the top quartile of returns. Private equity According to the annual UK Venture Capital Survey, across all industries.

Antoinette Bramble, chair of the Child and Adolescent Commission of the Municipal Association, said the margin figures were "concerned."

"Not only should providers not make excessive profits from these placements, but their income reports a serious budget deficit for children's services and experiences a substantial impact on Covid-19's income. It depends almost entirely on the fees paid by the council, "she said. ..

According to an analysis of a report submitted to Companies House between January 2020 and January 2021, the 20 largest providers of orphanages, foster care services and special housing schools earn 9 from local government fees. Increased by% to £ 1.58 billion.

However, there is growing concern that this sector cannot provide children and taxpayer money is leaking to private providers. Despite reports from Ofsted inspectors detailing serious concerns about the quality of care in some homes, the average placement costs £ 4,000 a week, but in some cases reports £ 10,000 a week. It has been.

Government-consigned review of child failure Care system Was released this week, but the Competition and Markets Authority, in a report later this year, has begun a study investigating lack of availability and increased costs.

Still, the child care sector is experiencing a surge Trading activity.. Elysium Healthcare, which operates 70 sites including special schools and mental health services for children and adolescents, is sold by BC Partners, who has appointed JP Morgan for sale. Elysium declined to comment.

Meanwhile, the stock price of Caretech, the only stock market-listed provider that cares for 2,000 children through 191 housing, schools and nurseries, has risen 50% over the past year, 6 It provided a market value of £ 665 million. Profit before tax, depreciation and profit before amortization were £ 58.3m, while municipal fees for children's services were £ 294m. The profit margin of ebitda is 19.8%.

"Reviews have brought people to life, but they haven't stopped it altogether," said Andrew Roma, author of the Revolutionary Report. "The market is convinced that the alternative cost of getting service in-house is too high."

However, the negative consequences of the two reviews can make the deal more difficult to close and debt renegotiation more difficult.

Outcome First, owned by private equity firm Sterling Square Capital Partners, and other providers, including Keys Group, owned by G-Square Capital, have also reported rapidly rising profits and margins of 15-20 percent.

Child care providers are far more profitable than other care sectors. According to Opus Restructuring analyst Nick Hood, the top 26 adult home care providers had a combined margin of 7.4%.

"It's reasonable to get a fair profit to drive the future investment that this sector really needs, but what's wrong is the rest of the care sector, which is almost unprofitable, or in fact. It's about making a profit to dwarf the big companies in the wider commercial world, "Food said. “This is especially true if the revenue comes primarily from funds provided by UK taxpayers.”

Liz Cooper, Deputy Chief Executive Officer of the Independent Children’s Housing Association, which represents the provider, said local governments could not meet their care needs without private provision, and current regulations are high and small. He said he brought home and pushed up costs. “We are confident in the value we offer,” she said.

However, the LGA is concerned that the large debt of operators in this sector could lead to the collapse of the company, and local governments are part of it, as it happened at Care Home Operator Southern Cross in 2012. Will be picked up.

According to a Revolution study, the total bank debt of the eight private equity providers included was around £ 1 billion.

“I understand that people consider debt levels a concern,” Rome said. “This funding model is sustainable only if there are investors and banks who continue to trust the sector.”

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