



The Role of Private Equity in UK Health & Care Services

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1. Executive Summary and Conclusions

1. The aggregate UK revenues of health, social care and special education companies currently backed by BVCA members amounts to some £5.0 billion a year or 3.6% of all public and independent sector supply of the relevant health, social care and special education services.
2. A broader definition of private equity - to include all companies which are currently backed by private equity or similar investors, regardless of whether they are members of BVCA, including companies which were formerly owned by private equity or sovereign funds and have fallen into the hands of creditor banks, and including companies in which private equity has a substantial minority participation - gives annual revenues of £6.7 billion. This represents 4.8% of all public and independent sector supply of the relevant health, social care and special education services.
3. Private equity backed companies' market share is at its highest, at 16%, in the mental health hospital market segment.
4. The current segment-by-segment profile of the independent sector's share of supply and the degree of consolidation/fragmentation is summarised in **Table 2**.
5. Most healthcare and special education companies which are backed by private equity rely heavily on public sector spending. The minority which have a large component of private funding include acute medical surgical hospitals, care homes for older people and dentistry. Whilst still publicly funded, current moves to give people more say in their care, through the proposed roll out of personal budgets in social care and special education creates a new audience for providers to engage with.
6. There are several market drivers which are common to most segments of the broad health and social care market in post-recession Britain. These are described in **Section 3**. They include:
 - Demographics, with the ageing population expected to drive underlying demand for health and social care upwards for the foreseeable future;
 - Severe financial constraints over the next five years at least, as government – which pays for the bulk of health, social care and special education - seeks to eradicate the public expenditure deficit;
 - An efficiency imperative, highlighted by the 'Nicholson challenge' for the NHS to make £15 - £20 billion of efficiency savings between 2011 and 2014;
 - A debt or gearing overhang from the pre-global credit crisis period of the 2000s;
 - A continuing need to replace or upgrade sub-standard or inappropriately used healthcare assets;

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- A trend towards outsourcing (to independent sector providers) of publicly funded healthcare and special education services;
 - A trend towards consolidation within those segments of the independent sector healthcare market which are currently immature.
7. There is a widely recognised need across all market segments for innovation and system change as well as capital investment in new services, to which private equity backed companies are well placed to respond.
8. The role of private equity is described in each of eleven market segments in **Sections 3.1 to 3.11**. The key contributions of private equity include:
- An important source of capital to fund both new capacity and upgrading of assets to meet user needs, at a time when other sources of capital are highly constrained. Private equity industry has funded the renewal of large swathes of care delivery sites over the last ten years. Without this investment modernisation would have been much more limited. Bank lending is frequently unavailable at present on acceptable terms and NHS capital allocations have been cut. Public markets typically do not fulfil their function as a supplier of capital well in the case of healthcare services because they generally demand relatively modest gearing. This was a major reason behind Care UK's decision to exit the public markets and go private with backing from Bridgepoint;
 - An important source of innovation and system change;
 - Promotion of efficiency. In some cases, such as dentistry (**Section 3.5**), this has the effect of supporting threatened public services, since most private equity owned dental surgery groups have been prepared to continue to focus on 'volume' NHS funded activity in contrast to a strong trend towards private dentistry only amongst professionally run dental practices. In other sectors, such as supported living and homecare, the scale businesses which are being created by private equity are capable of offering services at a lower price point than is typical in a fragmented sector which generally operates at below an economic scale, thus generating savings to the public sector;
 - Platforms for consolidation. This is particularly important in fragile, highly fragmented segments such as domiciliary care, where micro-providers do not have the financial strength to invest in new technology and systems (**Section 3.3**). A typical pattern is for owner founded businesses to reach a limit on growth based on the founder's management capacity, access to capital and appetite for risk. They cease to invest in new capacity and do not benefit from economies of scale which can be passed on to commissioners. Private equity has a role in taking these companies to the next stage of development. In addition, the existence of private equity as an exit route encourages initial entry of entrepreneurs. Using data from the statutory accounts of private equity owned companies listed in **Appendix 1**¹, we estimate that in aggregate

¹ Excluding Southern Cross Healthcare Group plc, which ceased to be private equity owned in 2006.

they recorded a compound annual growth rate (CAGR) in revenue of 11% per annum in the five years from 2006 to 2011. Most of the growth was attributable to acquisition;

- Reconfiguration of services. Looking forward, private equity could potentially play an important role in achieving the government's objective of migrating services out of NHS hospitals and into safe, more convenient and more economical community based settings.

9. Private equity companies recognise that quality of care is fundamental to building the long term value of the companies they back.
10. However, there are at present no internally or externally produced quality indicators which enable service users and public sector commissioners easily to compare quality across providers in any of the healthcare markets considered. Moves to standardise the reporting of quality accounts, annual reports of quality by providers, should help to improve the transparency of quality between different types of providers and help drive commissioning on the basis of quality and outcomes. Private equity investors have argued that the government, as part of its NHS information strategy, should ensure that the reporting of clinical outcomes data is easily comparable at provider level.
11. Six of the private equity backed healthcare and special education companies out of the 49 listed in **Appendix 1** have undergone capital restructuring involving substantial write-offs since 2008, including one (Specialist Dental Holdings Ltd) which was the subject of a pre-packaged administration deal. Contributory factors have in some cases included poor operational management but the most important factor has usually been excessive debt or rental commitments taken on in the early to mid-2000s prior to the 2008 pre-global credit crisis.
12. There is no case in which a capital restructuring has resulted in significant 'service discontinuity' in the form of precipitate closures of services on which vulnerable people rely. In each of the six restructurings listed, and in the case of Southern Cross as well, the main if not the sole consequence has been losses to investors and the banks which provided debt funding.
13. Within the care home sector, the inadequate level of fees paid by most local authorities is a key contributory factor to instability and the occasional capital restructuring. The government's position is that it provides sufficient funding for local authorities and that purchasing decisions are best made at a local level, while most local authorities counter that their funding is insufficient to pay higher fees. We consider that both central and local government should look urgently at proactive policies aimed at delivering stable and adequate fees in order to re-establish investor confidence in the publicly paid care home market.
14. The private equity companies interviewed in the course of this study argued strongly that the incentives under which they operate ensure that their activities are well aligned with the public interest because:

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- With property arbitrage opportunities no longer available, the only practicable way that private equity companies can create value in the companies they back is by building their long term value through organic growth, strategic acquisitions and excellent operational management;
 - Quality of service is recognised as being of prime importance in healthcare. In a highly regulated sector with a high media profile, where significant quality failures can be severely punished, maintaining a reputation for good quality of care is of prime importance in sustaining the long term value of healthcare businesses;
 - Private equity companies make their returns by holding their investments for several years and the best price on exit is likely to be achieved if there is at that time a realistic prospect of further value growth for the acquirer;
 - Short term cost cutting is not generally a sensible option in healthcare.
- 15.** Private equity groups have a deep knowledge of the companies they back and the sectors in which they operate, and they focus strongly on recruiting and retaining excellent management who are rewarded on successful exit and crystallisation of value. Private equity usually commissions formal operational due diligence pre investment and often operational vendor due diligence on exit. Assessment of quality is key to investment decision making.
- 16.** There is a frequently made counter-argument, however, that healthcare is intrinsically different from other sectors of the service economy, and that the role of private equity, and for-profit companies generally, should be limited on both moral and empirical, efficiency grounds. But two points stand out in support of a view that the way in which private equity promotes efficiency in healthcare is broadly benign and non-disruptive to UK residents:
- Vulnerable people and the services they rely on are not put at risk by the activity of private equity companies. There is no case in which any private equity business failure or restructuring since 2008 has resulted in significant 'service discontinuity' in the form of precipitate closures of services on which vulnerable people rely;
 - Successful private equity enterprise in the UK will almost always support UK employment. It is generally not possible to move healthcare services for UK residents to areas where labour costs may be lower.

In summary, there are strong *a priori* reasons for supposing that, in the post-global credit crisis environment, the interests of private equity backers of healthcare companies are well aligned with the public interest in maintaining operationally efficient businesses offering good quality services. The evidence presented in this report is also supportive of this view.

2. Scale of Health, Social Care and Special Education Services in the UK, and Private Equity's Share

Health, social care and special education services are a major focus of economic activity in the UK, absorbing over a tenth of GDP. The exact share depends on definitions². All of the major areas of health and care service expenditure have been brought within the ambit of this report, including:

- Acute medical / surgical hospitals;
- Mental health hospitals;
- Community health services
- Community mental health services;
- Family practitioner services such as:
 - o General practice;
 - o Dentistry;
 - (But not pharmaceuticals or sight aids, which are viewed as products rather services);
- Care homes for older and physically disabled people;
- Care homes for younger adults with learning disabilities and mental health problems;
- Domiciliary social care and supported living services;
- Other non-residential social care services;
- Special education and social care services for children and young people with learning disabilities, autism and emotional and behavioural difficulties, including children's homes, fostering and other non-residential children's care services.

All of these represent broad market segments – which can in turn be further divided into distinct market niches - in which the independent sector (by which we mean for-profit and not-for-profit non-statutory organisations) share of service supply ranges from virtually zero to 86%³. Like most other service sectors, they have attracted interest from private equity companies which are now deeply embedded, though minority players, within the healthcare economy.

Segments which we have excluded, either because they are positioned on the periphery of mainstream health and care services or because they are not consumer facing organisations and do not deliver healthcare services to final users, include:

- Alternative medicine of a type which is not usually funded by either the NHS or private medical insurance;

² The segments set out on this page account for 11.1% of UK GDP.

³ 86% in the elderly care homes sector. The proportion approaches 100% in the primary healthcare sector, but only if NHS GPs (who are independent practitioners) are classed as belonging to the independent sector, a classification which is controversial.

- Counselling and other borderline health services provided by people who are not subject to statutory regulation by the Care Quality Commission (in England);
- Recruitment companies specialising in supplying temporary and permanent staff to health and care service organisations;
- Property companies specialising in providing premises from which healthcare services are provided;
- Pharmaceutical and medical equipment companies.

2.1 Private equity definition and scope of the report

We have not adopted any hard and fast definition of what constitutes 'private equity'. In addition to members of the British Venture Capital Association, we have looked at companies backed by non-BVCA members including wholly overseas based private equity groups. An example is the Cambian Group which operates mental health hospitals, care homes and special schools with the backing of the US-based GI Partners.

We have also looked at companies which are backed by very high net worth individuals such as Barchester Healthcare. Though on a strict definition the owners of Barchester Healthcare (Grove Ltd and its shareholders) are not a private equity group, the general public – as well as many commentators - would consider that they share sufficient characteristics with private equity groups to make any distinction hard to sustain in practice.

There is also the question of whether we should include only companies which are currently backed by private equity, or whether the scope should be extended to cover those which recently have been. For example, the now defunct Southern Cross Healthcare Group ceased to be owned by a private equity company (Blackstone) in 2006 when it was floated on the London Stock Exchange, but its fate was in the view of some commentators linked to its former private equity ownership and it would clearly be wrong to exclude it entirely from consideration in this report.

Four Seasons Health Care is a prominent healthcare company which does not fit easily into any definition. Previously backed by Alchemy Partners followed by Allianz Capital, Four Seasons was bought in 2007 by Delta Commercial Property LP, an investment fund of the Qatar Investment Authority (QIA), but subsequently fell into the hands of its bankers when QIA was unable to refinance short term loans. It was only in April 2012 that the company announced its re-entry into the mainstream of private equity backed companies with a stable capital structure through its acquisition by Terra Firma, expected to complete in July 2012.

Finally, there is the question of whether companies in which private equity has a minority stake should be covered. The most important example is General Healthcare Group, the acute medical/surgical hospital provider which is listed on the Johannesburg stock exchange with 35% of its shares owned by Apax Partners - a member of BVCA. Apax participates actively in its management. Another smaller example of minority participation is the primary healthcare provider The Practice, which is part owned by MMC Ventures.

In view of these issues, rather than attempting to work to too precise a definition of 'private equity', we have sought in this report to bring various entities into the discussion on a pragmatic basis where it seems appropriate.

2.2 Scale of private equity involvement in UK health and social care services

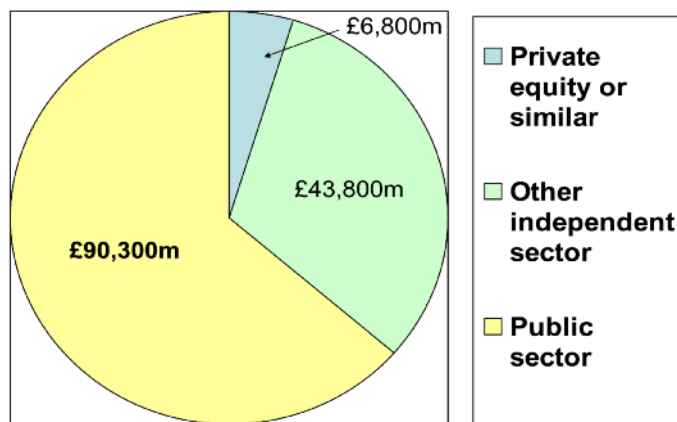
On a narrow definition, the aggregate UK revenues of health, social care and special education companies backed by private equity groups who were members of BVCA at the time of writing in mid-April 2012⁴ amounts to some £5.0 billion a year according to estimates based on their latest statutory accounts, typically for financial years ending in 2011, or 3.6% of all public and independent sector supply of the relevant health, social care and special education services.

A broader definition - to include all companies which are currently backed by private equity or similar investors (such as the high net worth individuals who back Barchester Healthcare) from the UK and overseas, regardless of whether they are members of BVCA, including companies which were formerly owned by private equity or sovereign funds and have fallen into the hands of creditor banks, and including companies in which private equity has a substantial minority participation - gives annual revenues of £6.7 billion. This represents 4.8% of all public and independent sector supply of the relevant health, social care and special education services.

These figures are derived from detailed information set out in **Appendix 1**.

Chart 1 summarises the scale of the contribution of private equity owned companies – on the broader definition of what constitutes private equity – in comparison with other independent sector suppliers and public sector suppliers. The data upon which this chart is based is in **Table 1**.

Chart 1: Estimated value of supply of health care, social care and special education services by provider sector, UK 2011



Source: Laing & Buisson, 2012

⁴ Four Seasons Health Care is excluded from the narrow definition because Terra Firma only agreed to acquire the company at the end of April 2012, and completion is not expected before July 2012. Four Seasons is included in the broader definition.

Table 1: Supply of UK healthcare services, broken down into specialist sector and provider sector, UK 2011

	SUPPLY BY PRIVATE EQUITY OWNED AND SIMILAR PROVIDERS, UK 2011, £M	REMAINING INDEPENDENT SECTOR SUPPLY, UK 2011, £M	PUBLIC SECTOR SUPPLY, UK 2011, £M	TOTAL SUPPLY, UK 2011, £M
Care homes for older and physically disabled people	1,109 8%	11,328 78%	2,096 14%	14,533 100%
Dental services sector	507 8%	5,209 87%	301 5%	6,017 100%
Special education and children's care sector	428 5%	1,530 18%	6,526 77%	8,484 100%
Acute medical/surgical hospital sector	1,791 3%	2,306 4%	52,759 93%	56,856 100%
Learning disabilities/ mental health care homes sector	486 10%	3,374 71%	874 18%	4,734 100%
Domiciliary social care and supported living sector	734 11%	4,985 72%	1,157 17%	6,885 100%
Other non-residential social care services (daycare, meals, etc)	0 0%	1,562 33%	3,123 67%	4,685 100%
Community health and home healthcare sector	902 8%	1,888 17%	8,390 75%	11,180 100%
Primary medical care sector (GPs and out-of-hours services)	206 2%	11,044 94%	488 4%	11,738 100%
Mental health and learning disabilities hospital sector	627 16%	497 13%	2,680 70%	3,804 100%
Community mental health and learning disabilities sector	0 0%	100 1%	11,955 99%	12,055 100%
TOTAL SECTORS DESCRIBED ABOVE	6,799 5%	43,823 31%	90,349 64%	140,971 100%
Other non-allocated services				32,492
ALL HEALTH, SOCIAL CARE AND SPECIAL EDUCATION SERVICES				£173,462M

Source: Estimates based on Laing & Buisson market reports for each segment, 2011/12

3. Market Structures, Drivers and Challenges

There are several market drivers which are common to most segments of the broad health and social care market in post-recession Britain. They include:

- Demographics, with the ageing population expected to drive underlying demand for health and social care upwards for the foreseeable future;
- Severe financial constraints over the next five years at least, as government – which pays for the bulk of health, social care and special education - seeks to eradicate the public expenditure deficit;
- An efficiency imperative, highlighted by the ‘Nicholson challenge’ for the NHS to make £15 - £20 billion of efficiency savings between 2011 and 2014, in part through better use of existing assets and through reconfiguration of services away from hospitals towards community based services. Similar cost (and quality) concerns are driving local authorities to place people in non-residential rather than residential settings wherever possible;
- A debt or gearing overhang from the pre-global credit crisis period of the 2000s, when banks were willing to lend very high multiples of operating profits to fund acquisitions of property-based healthcare businesses and private equity companies and other investors were willing to take on such debt or gearing;
- A continuing need to replace or upgrade sub-standard or inappropriately used healthcare assets, despite the massive investment that has already been made in new hospitals and care homes by both the public and private sectors over the last decade and a half;
- A trend towards outsourcing (to independent sector providers) of publicly funded healthcare and special education services, which is increasing the independent sector’s share of total supply;
- A trend towards consolidation within those segments of the independent sector healthcare market which are currently immature.

The current segment-by-segment profile of the independent sector’s share of supply and the degree of consolidation/fragmentation within each independent sector segment of healthcare provision is summarised in **Table 2**, which draws on the charts above.

A cursory glance at the table might suggest that the independent sector has a larger share of the overall healthcare market than it actually has, with most segments over 20% and some approaching 100%. However, closer inspection reveals that in fact the public sector still dominates healthcare delivery in the UK because:

- The broad acute medical / surgical hospital segment dwarfs other segments in terms

of total spending. It is estimated at £57 billion in the UK in 2011, and this is 93% provided in-house by NHS trusts;

- The Table shows the primary healthcare services (GPs and out-of hours services) as 96% provided by the independent sector, but only because NHS GPs - who are independent contractors to the NHS - have been classed as part of the independent sector despite their special position as part of the 'NHS family' for purposes of public sector pension entitlement.

Broadly, therefore, delivery of NHS services remains dominated by public sector provision in the UK, though with a significant and increasing volume of outsourcing to the independent sector in many segments. Special education is similarly dominated by public sector provision, with outsourcing largely limited to 'high ticket' services for children and young adults with the greatest needs. In contrast, service delivery in the social care sector – mainly funded by local authorities – has been very largely outsourced to the independent sector over the last three decades.

The principal driver of such outsourcing is pay rates and terms and conditions of employment for unqualified care and domestic staff, which are substantially more generous for public sector than for independent sector employees. A second driver has been the low level of political opposition to privatisation of social care services, which are largely provided by unqualified, low paid staff – compared with a high level of political opposition to privatisation of health care services, which are largely provided by professionally qualified staff.

In the light of the trends and challenges noted above, there is a widely recognised need across all market segments for innovation and system change as well as capital investment in new services. This need applies across all supplier sectors – public, for-profit and not-for-profit. It is pointed out throughout this report that private equity backed for-profit providers are currently well placed to respond, particularly in view of current constraints on public sector capital (for the NHS) and bank lending for the independent sector.

The following sections of this report consider the market drivers and challenges within the specific context of each market segment in turn, in order to elaborate on the role of private equity.

3.1 Care homes for older and physically disabled people

Care homes for older people at present represent the largest single element of independent sector activity within the healthcare domain.

All independent sector providers combined generate annual revenues estimated at £12.4 billion in 2011 out of an estimated total market size (independent and public sector providers combined) of £14.5 billion a year. BVCA members at the time of writing in April 2012 accounted for a negligible share of this segment (since Terra Firma's acquisition of Four Seasons will not complete until July 2012), though on a broad definition to include both Barchester Healthcare and Four Seasons Health Care, private equity's market share reaches £1.1 billion, or 8% of the total market size.

Nationally, 41% of older care home residents are 'pure' private payers in the sense that they do not rely on public sector support at all, and another 14% are 'quasi' private payers by virtue of

Table 2: Proportion of supply provided by the independent sector, and proportion of independent sector supply provided by the four largest operators (concentration ratio) for each segment of the healthcare and special education markets, UK 2011

	PROPORTION OF SUPPLY PROVIDED BY THE INDEPENDENT SECTOR	INDEPENDENT SECTOR CONCENTRATION RATIO	TOTAL SUPPLY, UK 2011, £M
Care homes for older and physically disabled people	86%	19%	14,533
Dental services sector	95*	10%	6,017
Special education and children's care sector	23%	13%	8,484
Acute medical/surgical hospital sector	7%	61%	56,856
Learning disabilities/ mental health care homes sector	82%	7.5%	4,734
Domiciliary social care and supported living sector	83%	11%	6,885
Other non-residential social care services (daycare, meals, etc)	33%	N/A	4,685
Community health and home healthcare sector	25%	47%	11,180
Primary medical care sector (GPs and out-of-hours services)	96*	2%	11,738
Mental health and learning disabilities hospital sector	29%	56%	3,804
Community mental health and learning disabilities sector	1%	N/A	12,055

* Both the primary medical care and dental services sectors are shown at virtually 100% provided by the independent sector, but such a classification is controversial because of special position of professional practices as part of the NHS family. While corporate activity is effectively free to find its own level in dentistry (whether publicly or privately funded), corporate activity in primary medical care is limited by a range of restrictions on open competition and by the ban on sale of goodwill in NHS general practices.

Source: Estimates based on Laing & Buisson market reports for each segment, 2011/12

paying top-ups over and above the fees that local authorities are prepared to pay⁵. A high degree of polarisation has emerged in the care home market for older people in recent years. Generally, those operators such as Barchester Healthcare with a primary focus on privately paying residents are benefiting from robust demand in affluent areas of the country and sustainable fee levels and operating margins. In contrast, those operators with high exposure to publicly paid residents (including all of the other large scale care home operators - Four Seasons Health Care, Bupa Care Homes and HC-One) are facing lower and declining margins as local authorities have frozen fee rates in response to severe financial constraints following implementation of the 2010 Comprehensive Spending Review cuts in central government funding from 2011/12.

As a result of the market polarisation, nearly all new care home development that is currently taking place is targeted at private payers in affluent areas of the country. Faced with inadequate local authority fee levels, and the prospect of further real terms decreases, few care home operators are investing in new stock in less affluent areas. Although capacity has generally not yet declined to levels at which local authorities have difficulty in placing residents, there are concerns that capacity shortages will appear as smaller, uneconomic care homes exit the market and as population ageing adds to underlying demand. There is also a widespread recognition that much of the existing care home stock is sub-standard. Despite the massive investment in new and refurbished capacity within the independent sector during the last two decades⁶, substantial further investment in capacity will be required for the foreseeable future with the population of very old people in the UK projected to more than double by the middle of the century. Despite the government's encouragement of non-residential care options, Laing & Buisson's view is that – barring the emergence of effective treatments for Alzheimer's Disease - demand for care homes will continue to rise in line with ageing of the population.

The participation of private equity in the elderly care home sector was significantly greater in the decade leading up to the global credit crisis than it is now. Prior to its flotation on the London Stock Exchange in 2006, the now defunct Southern Cross Healthcare Group had been built into the largest care home provider in the UK by the private equity group Blackstone through acquisition and merger of three non-asset owning operating companies ('Opco's') - Southern Cross, Highfield and Ashbourne - and the separate acquisition of the care home landlord NHP plc (which owned most of the Southern Cross freeholds) in 2005. A year later, in March 2006, Blackstone sold NHP with its 294 freeholds to Royal Bank of Scotland, leaving the merged Southern Cross Healthcare Group as a pure 'Opco' for its flotation. Other private equity companies, notably Electra Partners, had been active in the earlier consolidation of the component parts (in Electra's case the Ashbourne portfolio, initially developed by the Stakis hotel group). Private equity companies were also instrumental in building up the second largest for-profit care home portfolio, operated by Four Seasons Health Care, during the early 2000s. Alchemy Partners first backed the company in 1999 and greatly expanded it before exiting in 2004 with the company's sale to Allianz Capital (see **Appendix 1**).

Private equity's principal role in these early years was as a consolidator of existing care home portfolios, rather than as an organic developer of new care homes. Although there are not very substantial economies of scale from care home operation, it can be argued that the consolidation which was facilitated by private equity has created efficiency savings in two specific areas:

⁵ *Care of Elderly People UK Market Survey 2011/12*, Laing & Buisson.

⁶ Laing & Buisson has estimated independent sector investment in care homes for older people at £30bn over the two decades of the 1990s and 2000s.

- **Economies in procurement of consumables (utilities, food, etc):** the larger groups have been able to reduce expenditure from a previous sector benchmark of approximately 15% of fee income to around 12%. There are also economies of scale in head and regional office overhead costs, which the larger groups have been able to reduce to well below 5% of revenue compared with very variable figures, sometimes up to 10% which were observed at an earlier stage of the sector's development;
- **Reduced costs of capital:** As a cottage industry back in the 1970s and 1980s, nearly all care home development capital was in the form of mortgage finance, requiring substantial deposits from proprietors, often in practice provided by former proprietors through private second mortgages. The formation of NHP plc in the late 1990s made 100% sale and leaseback finance available for the first time, but it was expensive at an initial rate of 10.8% per annum. Consolidation within the market, to a large extent facilitated by private equity groups, for the first time created large scale care home portfolios, which enabled care homes to enter the mainstream of the commercial property market, leading in turn to significantly lower yields, currently around 6% for operators with a good covenant and around 7% for operators with a moderate covenant.

On the negative side, private equity companies and banks were both involved in the bidding up of asset prices in the lead-up to the 2008 global credit crisis, leading to an overhang of indebtedness which remains to be fully resolved amongst a number of care home companies – though the scale of the overhang has now been greatly reduced by the April 2012 announcement of Four Seasons Health Care's acquisition by Terra Firma. Excessive indebtedness which became apparent after the global credit crisis inevitably drew management time away from operations and towards financial restructuring.

Looking forward, private equity will have a continuing role to play in providing capital for additional capacity, a role which is important in the light of the current constraints on bank lending. They can also play a role in facilitating bank lending which would not otherwise take place. For example, Graphite Capital, a mid-market private equity company which has committed £75 - £80 million for new care home development by its portfolio companies in recent years, is understood to have 'unlocked' substantial further bank debt funding from a syndicate of banks that would not have been available in the post-2008 environment at the same scale if the companies involved had gone to the banks as unsupported start-ups. While other potential sources of capital exist, including pension and insurance funds as well as property investors, they are not yet filling the gap left by the effective withdrawal of many high street banks from the sector with capital funding offers that are attractive to operators. Capital will be required for both privately and publicly funded services:

- Private equity backed companies which have currently committed substantial funding to meet market demand for new, 'future proofed', high specification care homes, primarily for the private pay market, include Care UK (backed by Bridgepoint), the Avery group of companies (backed by Graphite Capital), Healthcare Homes (backed by Bowmark Capital) and Porthaven Care (backed by Phoenix Capital Partners);
- There is also a substantial potential need for refurbished and upgraded (though not necessarily new) capacity to meet potential, but as yet rarely expressed, demand

from the NHS for 'sub-acute' and rehabilitation services - which could be provided in nursing homes rather than in NHS hospital beds at a substantial saving, subject to NHS hospitals closing or re-using no longer needed in-patient capacity in general medical departments. Four Seasons Health Care and Barchester Healthcare, which are both included within the broader definition of private equity backed companies, would, alongside Bupa Care Homes, be the prime source of supply to satisfy any emergent trend towards outsourcing of these services by NHS trusts and GP commissioners.

3.2 Care homes for younger adults with learning disabilities and mental health problems

Independent sector providers of care homes for younger adults generate annual revenues estimated at £3.9 billion in 2011, dominating the segment with 82% of the estimated total market size (independent and public sector providers combined) of £4.7 billion a year. BVCA members at the time of writing in April 2012 accounted for £279 million, or 6% of the total market size, including £180 million from the market leader Voyage Group backed by Hg Capital and SL Capital Partners⁷. On a broad definition to include Four Seasons Health Care and Barchester Healthcare the market share of 'private equity' reaches £486 million, or 10% of the total market size.

The care home market for younger adults – most with learning disabilities – shares much in common with the care home market for older people, but with four important differences:

- Care home services for younger adults are almost entirely publicly funded, principally by local authorities and to a lesser extent by the NHS, which means that all providers across the country are subject to margin pressures, and will remain so until the financial environment within local government and the NHS improves;
- The registered care home service model for younger adults is more highly threatened by a lower cost alternative (supported living) than is the case for older people (where the lower cost alternative is domiciliary care). For this reason, there are strong reasons for care home providers for younger adults to diversify into supported living in order to protect their businesses in the long term. Well capitalised companies, including those backed by private equity, are better placed to undertake such diversification and the development of more innovative approaches than are small scale and often fragile businesses which make up the bulk of for-profit provision of residential (and non-residential) services for younger adults;
- The care home sector for younger adults is very fragmented, much more so than the elderly care sector. The four largest providers control only 7.5% of independent sector younger adult capacity, compared with the 19% of elderly and physical disability capacity controlled by the four largest providers in the somewhat less fragmented elderly care home sector. The fragility of smaller providers of younger adult homes is accentuated by the fact that, in response to recognised best practice and commissioners' requirements, individual homes for younger adults are small

⁷ Including revenues of Solor Care, acquired by Voyage in April 2012.

scale at an average of eight places per home. Even allowing for higher fee rates, the turnover of a typical owner managed care home business for younger adults is much smaller than a typical owner managed care home for older people;

- Because of the small scale of individual care homes for younger adults, and because of the widespread view that the care home model has an uncertain future in the face of commissioners' preferences for supported living, younger adult care home assets are much less attractive for property investors than care homes for older people.

With constraints on capital funding for new provision from banks and property investors, private equity has an important role as a supplier of capital for registered care home accommodation for younger adults requiring care.

There is only one publicly traded company in the sector, Caretech, which is itself understood to be seeking to go private. A key aspect of the offering of private equity backed companies such as market leader Voyage, is that they are amongst the handful of for-profit and not-for-profit organisations with the financial resources and systems to bid for significant re-provisions of services tendered by local authorities.

Private equity also has the potential to invest in non-registered accommodation, though the extent to which this potential is realised depends on the regulatory treatment of supported living settings by the Care Quality Commission (CQC) in England. The application of CQC rules usually discourages the company which provides the care service from at the same time providing the accommodation, on the grounds that such a setting would normally be registrable as a care home and the residents would not therefore be eligible for housing and other benefits. This means that most for-profit and not-for-profit supported living providers currently rely on partnerships with social landlords and housing associations under which the latter provide the accommodation while they themselves offer the care and support services at arm's length⁸.

There are, however, exceptions. For example, Eden Care and Support Group Ltd, a relatively small provider backed by Sovereign Capital, has been prepared to invest in both accommodation and care in supported living settings for highly dependent younger adults.

Such moves are important because at present the pace of transfer of younger adults in need of care and support from registered care homes to the (usually preferred) model of supported living is severely constrained by the limited capital available for this purpose for social landlords and housing associations. Private sector companies could potentially provide more capital to fund suitable accommodation, but such investment decisions are only likely to be taken by organisations – such as private equity companies - with substantial resources, a deep understanding of the sectors in which they operate and a reasonable appetite for risk.

Investment in systems is another important function of the relatively small number of organisations operating at scale in this fragmented but maturing sector, but this is best considered in the context of the related domiciliary care and supported living sector.

⁸ *Mental Health & Specialist Care Services UK Market Report 2012*, Laing & Buisson.

3.3 Domiciliary social care and supported living sector

Independent sector providers of domiciliary social care and supported living (excluding accommodation) generate annual revenues estimated at £5.7 billion in 2011, dominating this segment of social care with 83% of the estimated total market size (independent and public sector providers combined) of £6.9 billion a year. Currently, BVCA members account for £743 million, or 11% of the total market size. Using a broad definition of private equity adds nothing to private equity's total, reflecting the fact that in an 'asset light' segment of the market no private equity owned domiciliary care or supported living provider has fallen into the hands of creditor banks following the bursting of the asset price bubble in 2008.

This sector is defined to cover services targeted at all client groups, including both older people and younger adults. Most providers to some extent serve the full age range. While it has a much lower need for capital, the domiciliary care and supported living sector shares several features in common with the care home sector, including:

- Reliance on low paid staff to deliver services, with independent sector providers being substantially more competitive than public sector providers because of pay rates and terms and conditions of employment which are less generous than local authority in-house providers;
- Fragmentation, with the small scale micro-businesses which make up much of the supplier base being viewed by the Department of Health as even more fragile than the micro providers of care homes for younger adults;
- Heavy reliance on public funding, estimated to account for about three-quarters of independent sector domiciliary care and supported living providers' revenue⁹.

In this rapidly changing and as yet immature segment of the market, characterised by a high degree of fragility amongst micro-providers, private equity providers have a major role to play in funding consolidation into larger businesses with both the scale and the systems to work with local authorities and the NHS to develop non-residential services strategically.

The importance of scale is illustrated by the emergence of Lifeways as the market leader in the sub-segment of the domiciliary care and supported living market specialising in non-residential care and support of younger adults with complex needs (including those with learning disabilities, physical disabilities, mental health needs, sensory impairment, challenging behaviours and multiple needs). Lifeways is understood to account for approaching 10% of this £1 billion sub-segment – several times more than its closest competitors. This is a much higher share of its sub-segment than any provider has of the elderly non-residential care sub-segment of the market. As the largest scale provider specialising in services for young adults, Lifeways is one of only a handful of credible bidders for large-scale re-provision projects through which the government hopes to finally eliminate the inappropriate 'campus style' accommodation for people with learning disabilities hitherto provided by NHS hospitals in England. Lifeways, backed by August Equity (though in the process of being bought by Canadian OMERS Private Equity at the time of writing this report), also argues that excellent service quality goes hand in hand with scale because only larger providers can justify expenditure on the systems which are fundamental to adequate quality assurance.

⁹ *Domiciliary Care UK Market Report 2011*, Laing & Buisson.

Scale is also a pre-condition for investment in systems to take advantage of the economies that can be exploited through new technologies. Enara Ltd, another of August Equity's portfolio companies, can be used to illustrate the way in which private equity companies have taken the lead in applying technologies such as hand-held GPS PDA (Personal Digital Assistant) devices. Such devices are widely used in the USA in the delivery of home-based care, but adoption in the UK has been slow. PDA devices can be used to replace a carer at short notice in the case of sickness, or to log events such as 'no meal taken', which may be important in safeguarding. They may also be an essential component of cost-saving electronic billing. Investments in systems, IT and new technologies can give a rapid pay-back, and market consolidation of the kind brought about by private equity 'buy and build' strategies is a means by which such cost saving and quality enhancing systems can be more rapidly adopted in an as yet immature sector.

All of the private equity companies interviewed in the course of preparing this report emphasised the high priority given to quality assurance in the companies they back. This reflects not only the operational policies of the provider companies themselves but also the strong self-interest that private equity backers have in avoiding adverse media publicity of the type experienced by Castlebeck (see **Section 3.10**) which may have a strongly negative impact on long term value. Internal quality assurance systems are particularly important in domiciliary care services where the value of external inspections by CQC and other regulators is limited by the fact that service delivery takes place out of sight of everyone except the service provider and the recipient. August Equity provides an example of how a quality imperative can be built into systems. Each of August Equity's portfolio companies, Active Assistance, Enara and Lifeways, has an independent Quality Board which takes independent decisions on quality related issues such as health and safety and staffing levels for specific purposes. The Quality Boards are independent and are made up of service users and professional leaders. This effectively means that August Equity and its portfolio company managements have ceded control of spending on quality to quality 'champions'.

3.4 Other non-residential social care services sector

Independent sector providers of other non-residential social care services such as day care and meals generate annual revenues estimated at £1.6 billion in 2011, being 33% of the estimated total market size (independent and public sector providers combined) of £4.7 billion a year. Not-for-profit organisations account for the bulk of activity. There is no presence of private equity companies in this sector, and none is likely to develop in the future.

3.5 Dental services sector

Approximately 95% of the £6.0 billion a year primary dental services market (excluding complex hospital based dentistry) is in the hands of independent sector providers, the great bulk of it provided by small, professionally based dental practices. The 'corporate' sector of dental practice (groups of practices operating under common ownership) is estimated to have an annual market value of about £700 million, and of this about £500 million a year is generated by the three companies which are backed by private equity, all of them members of BVCA, representing 8% of the total market size of £6.0 billion.

Dentistry (like ophthalmics) is unusual in the NHS in that most of the service cost is charged to patients. The underlying driver of change over the last 30 years in the dental sector has been a long established government policy to levy charges on patients and restrict NHS remuneration rates for dentists in such a way as to encourage both patients and dentists to go private. As a result, it is now estimated that 58% of primary dental care is privately paid by patients, nearly all out of pocket rather than through dental insurance. The remaining minority, 42%, is paid by the NHS¹⁰.

The market leader in corporate dentistry is the recently merged group consisting of ADP Primary Care Services and IDH Group, backed by the US-based private equity company, The Carlyle Group. This is followed by the Oasis, backed by Duke Street Capital, and the James Hull group, now backed by AXA Private Equity following the failure of the business to meet its debt obligations under former backer Hutton Collins.

Although more than half of dentistry is privately paid, corporate dentistry has focused primarily on NHS paid dentistry. While prices are substantially higher for private dentistry, a significant risk factor is that the goodwill in private dentistry practices is highly dependent on personal and professional relationships and may be hard for corporates to retain. Perception of risk has been heightened by the fact that the only major corporate failure in the dental sector, Specialist Dental Holdings Ltd trading as James Hull, focused on premium, privately-paid, specialist, and cosmetic dental treatment which proved vulnerable to the post-2008 recession. NHS-focused dentistry, on the other hand, while it has to rely on a lower price structure, has the benefit of certainty of payment from fixed-income contracts with NHS Primary Care Trusts and negligible bad debts.

Private equity backed, large scale, corporate dentistry is typically based on maintaining efficient revenue sharing arrangements with self-employed associate dentists and exploiting supply chain economies in purchasing of consumables. By exploiting economies of scale, corporate dentistry has been able to obtain sufficient returns to justify continuing to invest in expansion in NHS-focused practices, thus in effect supporting what would otherwise be a declining NHS dentistry sector as other independent, professionally based practices opt increasingly for privately paid dental practice. The position of corporates in state-funded dentistry contrasts with the more vulnerable position of corporates in, for example, state-funded care homes, where the degree of pressure on margins has been such as to discourage any further investment in state-paid provision, see **Section 3.1**.

3.6 Special education and children's social care sector

All independent sector providers of special education and children's social care together generated annual revenues estimated at £2.0 billion in 2011, representing 23% of the estimated total market size (independent and public sector providers combined) of £8.5 billion a year. BVCA members are estimated to account for revenues of £235 million a year, or a 3% share of the segment, though on a broad definition to include overseas private equity investors and sovereign funds, private equity's market share reaches £428 million, or 5% of the total market size.

Virtually 100% of this segment is publicly paid, almost entirely by local authority children's departments. Independent sector providers, including corporate groups backed by private equity,

¹⁰ *Dentistry UK Market Report 2011*, Laing & Buisson.

focus primarily on serving children and young adults with the highest needs, dominated by young people with learning disabilities, autism and complex needs, followed by those with social, behavioural and emotional difficulties. With its focus on the highest needs, the independent sector's role in special education is similar to its role in mental health hospitals (**Section 3.10**) and care homes for younger adults (**Section 3.2**) where the independent sector also caters primarily for those with the highest needs.

Priory Group, backed by Advent International, is the largest corporate provider with 2011 revenues of £97 million within its special education division. Priory is accompanied by another eight private equity backed companies with estimated 2011 revenues ranging from £23 million to £66 million providing special education, children's homes and fostering services, and often all three.

Within the asset intensive area of special education, independent special schools and colleges now absorb about £1 billion of local authority spending per year. In an expanding market over the last decade and a half, one of the key roles of private equity has been to provide capital for new capacity. Expansion was stimulated by the former Labour government whose 'inclusion' policy led local authorities to withdraw from special school provision in favour of developing mainstream education opportunities wherever possible. Part of the resulting vacuum was filled by independent sector providers, mainly for-profit and frequently backed by private equity, focusing in particular on high levels of needs including children with learning disabilities, autistic spectrum disorders and complex conditions¹¹. There has been a ready demand amongst local authority commissioners for the new capacity that has been created.

Independent sector special school capacity increased from 7,000 places in 2003 to 9,750 places in 2011, most of it provided by private equity backed companies at an estimated investment cost of about £300 million. Looking forward, there remains scope for further capacity growth in the future, subject to local authority funding constraints, with private equity continuing to take the lead as the primary source of capital funding. Plans to change the way children are assessed for special educational needs through the creation of education, health and care plans create opportunities for providers who operate across all three spheres (e.g. Priory group). This coupled with plans for personal budgets to be operated by parents of children with special educational needs could open up new growth opportunities for the sector.

Within the fostering sub-segment National Fostering Agency (NFA), now backed by Graphite Capital and formerly by Sovereign Capital Partners, is the largest private equity owned provider with revenues of £54 million in the year to March 2011¹² within a £1.5 billion market which was 43% outsourced to the independent sector in 2010/11. Being 'asset light' this sub-segment has relatively low capital requirements. Private equity backed companies have nevertheless been active in recent years in building the key component of capacity, which is the number of available foster carers. It is widely recognised within the sector that the number of foster carers is the principal constraint on the further expansion of fostering as a lower cost and arguably higher quality substitute for residential care for looked after children. NFA was a pioneer in using demographic profiling to identify areas where potential foster carers are likely to live (using indicators of age, occupation and housing status), followed by mailshots and local events to recruit first time foster carers, backed up by heavy investment in recruitment teams.

¹¹ *Mental Health and Specialist Care Services UK Market Report 2012*, Laing & Buisson.

¹² NFA is second to the largest UK fostering agency group, Foster Care Associates, a company controlled by an individual, with annual revenues of £100m.

3.7 Acute medical / surgical hospital sector

Independent sector providers of acute medical / surgical hospitals generate annual revenues estimated at £4.1 billion in 2011, representing 7% of the estimated total market size (independent and public sector providers combined) of £57 billion a year. Currently, companies which are majority backed by BVCA members (Spire Healthcare, Care UK and Lasercare Clinics) account for £862 million, or 1.5% of the total market size. On a very broad definition to include not only non-BVCA members (Ultralase and Optegra Care) but also the market leader General Healthcare Group in which Apax Partners has a minority 35% stake, the market share of 'private equity' reaches £1.8 billion, or 3.2% of the total market size.

The independent medical / surgical hospitals sector as it stands at present represents one of the more mature segments of the broad UK independent healthcare market, in which the top four providers control a 61% share. Publicly traded companies have a very strong presence, accounting for three of the five largest providers¹³. Despite this, and the presence of a major charity (Nuffield), there is a continuing need for private equity backers, if only because any further significant consolidation of the sector is likely to be prohibited under competition rules.

The independent acute medical / surgical hospital market caters primarily for private patients requiring elective surgery, who are in turn funded primarily by medical insurance. The volume of privately funded activity expanded steadily through most of the last three decades, but the trend line broke with the post-2008 recession following which the volume of demand for private medical insurance has dropped by about 10%. Independent sector hospital groups, some of which carried high levels of debt or rental obligations from M&A deals prior to the 2008 global credit crisis, would have faced overall declining top-line revenue over the past four years if it were not for the rapid expansion of NHS paid business from a small base. There were two components to this, first the centrally directed ISTC (Independent Sector Treatment Centre) programme under the former Labour government which between 2003 and the end of the decade created significant new for-profit capacity dedicated exclusively to NHS work. The largest ISTC provider is Care UK, backed by the private equity company Bridgepoint, though its ISTC business was built up as a publicly quoted company up to its buyout in 2010. Second, the Labour government encouraged a degree of outsourcing of NHS paid elective surgery to incumbent, mainstream independent sector hospitals and, more fundamentally, introduced under the 'choice' initiative the right of NHS patients to choose to receive treatment at an independent hospital, subject to the independent hospital's willingness to accept NHS funded patients. The coalition government has enthusiastically endorsed the 'choice' policy and the volume of NHS patients opting to be treated in independent sector hospitals has continued to rise. As a consequence of these initiatives, alongside the decline in private demand, 'incumbent' independent hospitals (excluding ISTCs) have seen the NHS funded share of their activity increase massively from 6% to an estimated 26% in 2010¹⁴. There is no doubt that NHS outsourcing has helped to avoid a crisis of falling private demand for the independent hospital sector, and the NHS has in turn benefited from the wider range of choice it can offer public patients at tariff prices, but a downside for independent hospitals has been the substantially lower margins available from NHS funded activity at NHS tariff prices, together with

¹³ General Healthcare Mixer Partnership LLP, a subsidiary of Network Healthcare Holdings Limited listed on the Johannesburg stock exchange; Ramsay Health Care UK Operations Ltd, a subsidiary of the Australian listed company Ramsay Health Care Ltd; and several UK-based companies which are owned by HCA Holdings Inc., which is publicly traded on the New York Stock Exchange.

¹⁴ *Laing's Healthcare Market Review 2011-12*, Laing & Buisson.

the risk that the perceived value of the private hospital offering may be undermined by the presence of large numbers of NHS patients receiving services free.

One of the consequences of rapid changes in medical technology is that length of in-patient stay is decreasing, resulting in low levels of utilisation for the 9,500 beds currently located within independent hospitals. With nearly all significant centres of population covered by an existing private hospital, and additional competition injected by NHS private patient units, there is no pressing need for capital to increase the number of new independent medical / surgical hospitals to meet privately funded demand. There is, however, a clear need for hospital groups to dedicate substantial sums to maintenance capital expenditure in order to renew and even expand operating theatres, supporting facilities and equipment - which can rapidly date - in order to sustain top quality services for privately funded and other patients within the footprint of existing private hospitals. It is reported that Spire Healthcare, which is the second largest independent medical / surgical hospital group in the UK after General Healthcare Group, and the largest to be majority owned by a private equity company (Cinven), has spent an average of £45 million per annum on maintenance capital expenditure since Cinven acquired the company in 2007, almost doubling former owner Bupa's average annual maintenance capital expenditure between 2004 and 2006. The example of Spire is illustrative of private equity's general ability and willingness to invest in the healthcare businesses they own.

In the case of publicly funded healthcare, the need for capital to develop new capacity is an unknown quantity. Latest figures for 2010 indicate that 12.2% of all UK in-patient and day case elective surgery was undertaken in independent hospitals – divided into 7.8 percentage points privately funded and the remaining 4.4 percentage points publicly funded through NHS outsourcing. The current government policy is that choice of hospital for elective surgery should lie with the patient in consultation with his or her GP and that payment at NHS tariff rates should be the same regardless of provider. The policy, if continued, raises the possibility that the share of NHS funded elective surgery carried out in the independent sector may increase in the future. Any trend in this direction, however, would soon hit a capacity constraint, since ISTCs are largely fully utilised and there is a finite amount of spare capacity within the mainstream private hospital sector. Should demand emerge for new independent sector capacity for publicly funded patients, there is little doubt that it would make use of low cost (and safe) models of elective surgery delivery similar to ISTCs, rather than existing, less cost efficient, mainstream private hospitals. While there is as yet no evidence of any really major, patient choice driven move towards independent sector alternatives, there are nevertheless many smaller scale provider organisations, many of them clinician based, which are seeking to gain entry into the NHS-funded market. There is a possibly growing role for private equity companies in bringing such new ventures to the market.

All of the commentary above relates to elective surgery, which only accounts for a minority of the £57 billion spent on acute medical / surgical hospitals both privately and in the NHS. The bulk of spending is on emergency medical referrals to NHS hospitals (mainly older people) and trauma services. Because of their very high staffing needs and the requirement to exploit economies of scale, the trend within the NHS is towards reconfigurations which locate full services in a reduced number of large scale hospitals. Emergency care has many of the characteristics of a natural monopoly and as such is unlikely to be outsourced to independent sector contractors in the future, except in so far as whole hospital management contracts are let¹⁵.

¹⁵ The first such whole hospital contract was let by the NHS in 2012, under which Circle has a long term contract to manage Hinchingbrook hospital.

There is, therefore, unlikely to be a role for private equity. However, part of the reconfiguration which take place in the future as the NHS responds to the efficiency challenge will involve the development of new care pathways which would allow a substantial proportion of the patients now treated in hospital to receive care safely, more conveniently and more economically in community based settings, including their own homes, see **Section 3.8** Community health and home healthcare sector.

3.8 Community health and home healthcare sector

Independent sector providers of community health services and home healthcare services generate annual revenues estimated at £2.8 billion in 2011, representing 25% of the estimated total market size (independent and public sector providers combined) of £11.2 billion a year. Two companies backed by BVCA members are currently active in the market. By far the largest is Healthcare at Home Ltd, now backed by Vitruvian, formerly by Hutton Collins and before that by Apax Partners. Healthcare at Home's latest statutory accounts show revenues of £814 million in the year to October 2010. The other private equity backed company is Active Assistance (UK) Group Ltd, owned by August Equity, with revenues of £5.7 million in the year to March 2010. Together they account for 8% of the total market size. There are no non-BVCA private equity companies with investments in this sector.

The community health and home healthcare sector, which is almost wholly funded by the NHS, is poorly defined. The community health services component of it consists of a wide range of health services which are positioned intermediate between hospitals and general practice and cost an estimated £10.1 billion in 2011 across the UK. The largest individual element is community nursing, involving home visits by qualified nurses. The home healthcare component is even more poorly defined. While it is possible to aggregate independent sector providers' revenues to an estimated total of £1.1 billion in 2011, we have found it impossible to make any estimate of the value of 'home healthcare' provided in-house by the NHS. Nevertheless, the very rapid growth in revenues of Healthcare at Home Ltd from £251 million in 2005 to £814 million in 2010 indicates a willingness of NHS commissioners to buy into the home healthcare model. To date, the Healthcare at Home business has been based on low margin distribution of drugs for cancers and a number of other conditions where there is an added element of clinical service required for the home administration of powerful drugs. Increasingly, however, Healthcare at Home and other home healthcare companies are seeking to diversify into the delivery of higher value added clinical services in people's own homes.

Looking forward, therefore, there is a major opportunity for the community health and home healthcare sector to expand and merge into a broader 'out-of-hospital' sector in which a substantial proportion of activity now (unnecessarily) provided in NHS hospitals will be re-provided safely, more conveniently and more economically under new care pathways in community based settings and in people's own homes. Based on work undertaken by the consultants, McKinsey, the potential size of the NHS 'out of hospital' market segment has been estimated at £10 billion a year in the medium term, and possibly £20 billion in the longer term according to some providers who are active in developing out of hospital services¹⁶. The greatest potential is believed to lie in building

¹⁶ *Primary Care & Out of Hospital Services UK Market Report 2011/12*, Laing & Buisson.

community based alternatives to unscheduled emergency hospital admissions. Against this background, there is a potentially major role for private equity providers prepared provide capital and take risks in backing companies with innovative models of healthcare aimed at reconfiguring UK health services.

3.9 Primary medical care sector

All independent sector providers of primary medical care (GPs and out-of-hours services) together generate annual revenues estimated at £11.0 billion in 2011, representing 96% of the estimated total market size (independent and public sector providers combined) of £11.7 billion a year. In making this calculation, NHS GPs have been classed as independent sector providers since nearly all of them are independent contractors to the NHS who distribute profits to themselves. It should be noted, however, that this classification may be viewed as controversial since GPs occupy a privileged position as part of the NHS 'family' with their entitlement to public sector pensions. BVCA members are estimated to account for revenues of £206 million a year in 2011, or a 2% share of the segment.

There is a sharp division between the privately and publicly funded primary medical care market segments. Providers focus on one segment or the other and there is little overlap. All of the private equity backed companies operate in the publicly funded (NHS) segment¹⁷.

The mainstream, publicly funded (NHS) primary medical care market could potentially attract a larger number of private equity investors, with potential for further development of a currently embryonic corporate model of general practice characterised by multi-practice groups staffed by salaried employees. There are, however, several structural barriers to competition within general practice which have acted to stifle competition and hinder the entry of new providers and new sources of investment. As a result, NHS funded primary medical care remains very largely a professionally closed shop of locally based independent practices, with the exception of a handful of multi-practice groups, a now completed Labour government initiative to invite competitive tenders for 'equitable access' health centres in underprivileged areas, and an 'out-of-hours' segment which lies outside standard GP contracts and is therefore open to competition.

The largest of the private equity backed primary medical care companies, with revenues of £90 million in the year to March 2011, is HWH Group Ltd, trading as Harmoni, backed by ECI Partners. Harmoni's range of services, which is typical of other private equity backed companies in this segment, includes GP out-of-hours services; 'equitable access' GP-led health centres; and prison healthcare services. The second largest is The Practice plc, with estimated revenues of £45 million in 2011. The Practice, with minority backing from MMC Ventures, is exceptional in that its portfolio of 68 GP practices (the largest in the UK) includes 60 mainstream general practices on national GMS and PMS contracts¹⁸ as well as eight 'equitable access' health centres. Usually, GP practices with outside investors are banned from holding these national contracts with the NHS, but The Practice had found a legitimate way of avoiding the ban.

¹⁷ The privately funded segment consists of independent, professionally managed private practices, generating about £500 million a year, and a variety of typically small scale clinics and some visiting doctor services, generating a further £500 million a year. Privately funded primary medical care is essentially a niche segment which is unlikely to expand significantly unless the government were to impose substantial user charges for NHS primary medical services, an eventuality which is politically unlikely.

¹⁸ The vast majority of independent NHS general practices operate on nationally negotiated GMS (General Medical Services) or PMS (Personal Medical Services) contracts, while providers which are not part of the 'NHS family' usually operate of APMS (Alternative Provider Medical Services) contracts.

An enlarged role for private equity in this segment of the healthcare market depends on the removal of some or all of the structural barriers to competition. Most important is clarification of the rules governing outside investors in companies providing NHS GP services, and whether this excludes them from operating under standard, national GP contracts. Another is the current legal ban on the sale of goodwill in NHS general practices.

3.10 Mental health and learning disabilities hospital sector

Independent sector providers of mental health hospitals generate annual revenues estimated at £1.1 billion in 2011, representing 29% of the estimated total market size (independent and public sector providers combined) of £3.8 billion a year. Those companies backed by BVCA members at the time of writing in April 2012 (Priory Group, Partnerships in Care and Glenside Care Group) accounted for £412 million, or 11% of the total market size. On a broader definition of private equity to include Four Seasons Health Care, Cambian Group and Barchester Healthcare as well, the figure rises to £627 million or 16% of total market size.

The great bulk of mental health hospital care, 87%, is publicly paid by the NHS, with the remaining 13% split approximately equally between private medical insurance and self-pay. The emergence of the independent sector as an important contributor to Britain's publicly paid mental health hospital service dates back to the closure of the large NHS mental asylums from the 1960s onwards as policy makers and NHS managers sought more community based alternatives to institutional care. As NHS capacity was closed, the independent sector responded to fill gaps which emerged, offering secure and other specialised services for patients with the most challenging needs as a supplement to the more generic services available in remaining NHS mental health hospitals – diversifying later into 'step-down' types of provision to accommodate patients who no longer need secure provision. Overall mental health hospital capacity in the UK plummeted from about 125,000 beds in the 1960s to 33,400¹⁹ in 2011, with 23,500 beds now provided by the NHS and 9,900 beds provided by the independent sector,

Like other independent healthcare providers, mental health hospital operators are facing a challenging market environment in 2012 as the NHS adjusts to zero growth after a decade of significant year-on-year real terms growth. In addition to pricing pressure, occupancy rates have in some cases dipped as NHS commissioners have on occasion responded to budget pressures by bringing patients in-house, despite concerns about the suitability of NHS facilities.

Independent sector providers are also having to deal with uncertainty as NHS commissioning structures and personnel are subject to temporary upheaval under the government's healthcare reforms. In addition, the market is locally variable with some areas of over-capacity and some of under-capacity. Companies with a geographically diverse portfolio, including larger private equity backed groups, are arguably better placed to withstand adverse market conditions because of risk spreading and learning opportunities from a diverse portfolio.

Private equity backed companies have a larger share of the independent mental health hospital market, at 56% of independent supply on a broad definition of private equity, than in any other

¹⁹ Excluding long stay capacity primarily for older people with dementia.

sector of the health and care services market. It includes the two market leaders, Partnerships in Care, which is the market leader in secure provision and Priory Group, which is the market leader in independent acute psychiatric provision.

In a highly capital intensive sector, both Partnerships in Care and Priory Group, alongside other independent providers, have invested substantial sums in developing and maintaining capacity which is fit for purpose and compliant with regulations. Cinven owned Partnerships in Care, for example, engaged in a major upgrading and expansion programme between 2007 and 2010 in which £100 million was invested. In addition to claiming 100% compliance with CQUIN²⁰ metrics, the company's medium and low secure facilities are understood to be fully compliant with physical standards, including the new draft standards on low secure facilities published by the NHS Commissioning Board at the end of 2011. This is at a time when there are concerns about compliance of NHS in-house provision and shortages of capital for upgrading. Similarly, Advent International owned Priory Group has also invested heavily in recent years in maintaining, upgrading and as necessary repositioning its mental health hospital portfolio.

Looking forward, there is likely to be a continuing need for capital investment by the independent sector in order to reposition existing services in response to commissioners' specific needs (which can change rapidly in this sector) and in order to build new capacity where NHS commissioners seek alternatives to NHS in-house provision.

Quality issues are high on the agenda across all healthcare services, and no more so than in the mental health sector. Private equity companies represented by BVCA argue that the highly active role they play in developing their companies and their focus on management excellence mean they are as well or better placed to assure quality than any other type of investor, and these arguments are considered in **Section 4**.

But no provider sector can guarantee high quality always, and Castlebeck Group, backed by non-BVCA member Lydian Capital, was the subject of one of the highest profile scandals of recent years in 2011 when the BBC *Panorama* programme revealed mistreatment of patients at its Winterbourne View hospital. Geneva-based Lydian Capital is understood to adopt a 'hands-off' role which is not typical of the active participation that mainstream private equity investors have in the management of their portfolio companies. Nevertheless Lydian Capital, which is ultimately owned by a number of high worth individuals, comes within the broader definition of private equity that we have adopted in this report.

Recognising the damage to long term value resulting from highly adverse publicity, Castlebeck and other mental health hospital providers were quick to respond to the highly adverse publicity. In Castlebeck's case it was an exercise in damage limitation and a total review of all its operations. For others, the urgency of response demonstrates a keen awareness amongst private equity groups that maintenance of good quality standards is fundamental to the long term value of the companies they have invested in.

²⁰ A feature of the standard NHS contract for mental health services introduced in England in April 2009 is regular CQUIN (Commissioning for Quality and Innovation) reviews in which commissioners and providers are expected to review a list of quality indicators as part of contract monitoring. A feature of CQUIN is that purchasers hold back 4% of the contract price until they are satisfied that quality / outcome data are satisfactory.

Market Structures, Drivers and Challenges

Taking Priory Group as an example, the company is using consultancy group PwC to validate its 'quality accounts' that are compiled to report on patient satisfaction surveys, employee surveys and internal audit inspections, as well as external regulator reports from the CQC. Priory management has also commissioned PwC to undertake a review of Priory's entire approach to quality as it seeks continual improvement in this key business area.

3.11 Community mental health sector

The community mental health sector is dominated by NHS mental health trusts. The independent sector makes a negligible contribution to supply and we are unaware of the involvement of any private equity company at present, other than some small scale community based mental health services offered by Priory Group.

4. Quality

There is no shortage of evidence that serious lapses in quality assurance can have potentially devastating effects on healthcare businesses, and that demonstrably excellent quality is a good basis for building long term value.

Recent examples of the former include the Winterbourne View scandal (see **Section 3.10**) which the Castlebeck group, backed by the non-BVCA member Lydian Capital, is still working to put behind it. In the domiciliary care sector, quality failures can lead to loss of contracts and at the individual care home level nearly all major care home groups have experience of the damage to profitability resulting from local authority placement embargoes arising from concerns over quality issues such as safeguarding. Private equity providers, therefore, which make their returns by holding their investments for several years before seeking to sell with the prospect of further value growth for the acquirer, have a strong financial incentive to sustain quality over the medium to long term. Private equity companies do not have an incentive to maximise short term profits at the expense of medium or longer term profitability, especially in the post-global credit crisis environment where property arbitrage is no longer a valid strategic goal.

Nearly all independent sector healthcare providers, whether private equity owned or not, have some sort of quality assurance system in place, many of which involve the output of quantifiable quality indicators. The fundamental problems for internally produced quality indicators, however, are that **a)** they are at best only partial measures of quality and **b)** the measures themselves are highly variable and at present there is no way that they can be used by service users, commissioners and providers themselves to compare the overall quality of one provider against another.

Externally mandated quality measures offer another approach, which in principle may better facilitate comparisons. In the acute medical / surgical sector, providers have been collaborating for several years on the sector wide Hellenic Project, which is aimed at producing systematic measures of quality in terms of outcomes for acute medical / surgical treatments. However, no comparative data have yet been published at the individual hospital or hospital group level. In the care home sector the former English regulator, the Commission for Social Care Inspection (CSCI), made a brave effort to introduce a national system of easily comprehensible quality indicators. Their 'star rating' programme used CSCI inspections to rate all care homes nationally from zero stars (poor) to three stars (excellent). Although there were concerns about the reliability and consistency of the ratings, they were well received by the public and the sector. They provided a quantifiable target for quality improvement programmes and were enthusiastically adopted by many private equity backed and other large groups, for example Craegmoor Healthcare which showed the fastest improvement in quality ratings of any operator following Advent's acquisition in 2008. The star rating scheme was, however, abandoned by the new regulator the Care Quality Commission (CQC) from mid-2010, as a consequence of the change in regulations under the Health and Social Care Act 2008 which meant that the former measures of quality were no longer valid under the new legislation. In its place, CQC now collects data on service providers' compliance with the new set of 'essential national standards' mandated by the Health and Social Care Act 2008. These may soon be available in a format allowing easy cross-provider

comparisons, but they will differ from the former star ratings in that they will relate to compliance only and will not seek to recognise aspirational indicators of ‘excellence’. The private equity sector, and the independent sector in general, would welcome progress in creating a wider range of relevant and reliable measures of quality, that all sectors could subscribe to, in order to have a common set of indicators to benchmark to.

Though now of historic interest only, findings from the last star ratings are summarised in **Table 3**. The quality ‘performance’ of private equity backed care home providers’ portfolios is variable, with some above and some below the national average of 88% ‘good or excellent’ for for-profit care home providers.

Table 3: Star ratings for for-profit care homes operated by private equity backed companies at cessation of star ratings scheme in June 2010

GROUP	PRIVATE EQUITY BACKER (JUNE 2010)	NUMBER OF HOMES	% OF HOMES RATED ‘GOOD’ OR ‘EXCELLENT’ ¹
BVCA MEMBERS			
Tracscare	Sovereign Capital	18	100%
CHOICE	Sovereign Capital	39	100%
Care UK	Bridgepoint	74	97%
Healthcare Homes	Bowmark Capital	23	96%
Voyage	Hg Capital & SL Capital	202	95%
Craegmoor Healthcare	Advent International	159	86%
Avery Group	Graphite Capital	29	85%
ILG	Hermes GPE	41	83%
NON-BVCA PRIVATE EQUITY			
Solor Care	Barclays Private Equity ²	62	93%
Barchester Healthcare	Grove Ltd	170	92%
Four Seasons Health Care	RBS and others	219	87%
Cambian Group	GI Partners	22	84%
ALL ENGLISH CARE HOMES			
Independent, for-profit		12,376	88%
Independent, not-for-profit		3,916	94%
Public sector, local authority and NHS		1,098	92%
ALL SECTORS		17,390	89%

¹Excluding homes not yet rated.

²Now Equistone Capital Partners following a management buy-out in 2011.

Source: Historical data taken from Laing & Buisson’s StarTracker product

5. Frequency of Capital Restructuring Amongst Private Equity Backed Companies

Six private equity backed healthcare and special education companies out of the 49 listed in **Appendix 1** (using the broader definition of private equity) have undergone capital restructuring involving substantial write-offs in the last three years, including one (Specialist Dental Holdings Ltd) which was the subject of a pre-packaged administration deal.

Contributory factors have in some cases included poor operational management but the most important factor has usually been excessive debt or rental commitments taken on in the early to mid-2000s prior to the 2008 pre-global credit crisis.

Those private equity backed companies which have undergone a financial restructuring where a private equity backer has lost their investment include:

- **Specialist Dental Holdings Ltd**, trading as James Hull Associates, a dental surgery group focusing on private patients backed by Hutton Collins. The company over-reached itself with an ambitious acquisition strategy, coupled with challenging economic conditions post-2008, and the company fell into administration at the end of 2010. Following a pre-packaged administration deal, former minority shareholder AXA Private Equity emerged in January 2011 as the majority stakeholder in the business for an investment of just £7 million;
- **Ultralase Ltd**, a chain of UK corrective eye laser clinics. The company was acquired by private equity firm 3i Group for £174 million in February 2008. In a financial restructuring in February 2010, which wiped out 3i's investment, Ultralase was sold to CLVC Group Ltd, a company jointly owned by the private equity arms of Ultralase's senior debt lenders, Barclays, Royal Bank of Scotland, Lloyds and Bank of Ireland;
- **ILG Holdings Ltd**, a provider of residential care for adults with severe and profound learning disabilities in the South East of England. In December 2006 ILG was acquired by Hermes Private Equity for an undisclosed sum, with plans to expand both organically through new build and through acquisition. The company, however, was unable to service its debt obligations and as part of a restructuring was sold in February 2012 for a nominal sum to a turnaround specialist;
- **Alliance Medical Group Ltd**, a UK-based provider of outsourced radiology imaging services in Europe. In November 2007 the company was purchased by Dubai International Capital LLC (DIC) from Bridgepoint. Following a downturn in financial performance from 2009, Alliance agreed a capital restructuring deal with its lenders and investors which saw the stake of DIC cut to just 2.5% from 60%, while minority investor Bridgepoint was diluted pro-rata down to an insignificant percentage shareholding. In November 2010 control passed to the senior lenders, led by Lloyds Banking Group plc, Commerzbank AG and M&G Investments, part of Prudential plc, which took an 85% stake as part of a debt-for-equity swap. Under the agreement;

Alliance Medical's debt was narrowed to approximately £250 million from more than £570 million;

- **Four Seasons Health Care**, the largest care home group in the UK. The company is included in this list because of the failure of Qatar Investment Authority (QIA) to refinance its acquisition on short term borrowings in 2006, and because of the subsequent write-off of substantial sums by creditor banks including RBS. Four Seasons' capital structure was finally put on a stable long term footing with the April 2012 announcement of its acquisition by Terra Firma;
- **CB Equity Ltd**, trading as Care Principles, a mental health hospital provider specialising in learning disabilities. Care Principles was first backed by 3i in 2003 and was acquired in July 2007 by funds managed by Three Delta LLP. Following the onset of the global credit crisis the company's financial position worsened and in April 2009 the entire share capital of CP Equity Ltd was acquired by Barclays Bank plc in order to secure its control pending a consensual restructuring associated with the company's secured lending facilities. The Care Principles operating business was subsequently transferred to Four Seasons Health Care, effectively free, while Barclays retained the hospital freeholds.

Of the six cases described above, two (ILG and Ultralase) were at the time backed by a BVCA member. The other four, Specialist Dental Holdings, Alliance Medical, Four Seasons and Care Principles come under the broader definition of private equity, having been subject to a capital restructuring in circumstances where a 'pure' private equity house and BVCA member was not the lead investor/owner.

The nursing home company Southern Cross Healthcare Group may also, arguably, be classed as a failed private equity backed company on the grounds that it was private equity owned, by BVCA member Blackstone Group International Partners, until 2006 when it was floated on the London Stock Exchange as a 'pure operating' company which owned none of the care home assets from which it traded.

The company ceased trading five years later in 2011 following its inability to mount an adequate response to the 'perfect storm' which had engulfed it from a combination of high and increasing rental obligations and static or falling fees and occupancy levels as local authorities adjusted to swingeing cuts in central government funding. The trigger for its collapse was the company's failure to meet its rental obligations, leading to a widespread public perception that its sale and leaseback or 'opco / propco'²² business model was fundamentally flawed. While its original private equity owner, Blackstone, did not itself initiate the opco / propco business model which contributed to the failure (see **Section 3.1**) it did merge a number of existing companies which were already using sale and leaseback into by far the largest care home group in the UK, which made its eventual failure highly visible.

²² The 'opco / propco' split refers to arrangements in which the company which operates facilities is separated from the property company which owns the freeholds of the properties and receives rent from the operating company. In some cases the opco and propco are both owned by the same group. In other cases, such as Southern Cross, the operating and property companies are entirely separate.

Frequency of Capital Restructuring Amongst Private Equity Backed Companies

A key issue which emerged following the Southern Cross collapse is what new regulation, if any, is required to safeguard vulnerable service users from the consequences of business failures. Proposals have ranged from specific responses such as a regime similar to the Air Travel Organisers' Licensing (ATOL) scheme²³, to more general restrictions on the level of indebtedness that may be taken on by healthcare providers, or even the banning of specific financial structures such as sale and leaseback.

While there is no doubt that many healthcare companies did take on what proved to be excessive burdens of debt or gearing as part of pre-2008 deals backed by both banks and private equity companies, a key fact is that there is no case in which a failure or restructuring has resulted in significant 'service discontinuity' in the form of precipitate closures of services on which vulnerable people rely. In each of the six business failures and restructurings listed above, and in the case of Southern Cross as well, the main if not the sole consequence has been losses to investors and the banks which provided debt funding.

²³ Under a regime similar to ATOL's, care home operators would be required to participate in a financial guarantee scheme which would give the administrators of any home at risk of precipitate closure because of business failure the funds to keep the home open for long enough to ensure sensitive, orderly transfer to alternative homes, with the Agency providing the funds having the first call on any sums realised by the administrator in order to pay back what has been spent.

6. Can Private Equity be Trusted with Healthcare Services?

The private equity companies interviewed in the course of this study argued strongly that the incentives under which they operate ensure that their activities are well aligned with the public interest. Their arguments, set out below, could apply equally to healthcare services and all other sectors of the economy. Most of the material presented in the body of this report supports the positive impact of private equity in healthcare, though it is beyond its scope to offer any judgement on the extent to which these essentially *a priori* arguments are generally valid across the economy as a whole.

- With property arbitrage no longer a potential source of value, for the foreseeable future at least, the only practicable way that private equity companies can profit from the companies they back is by building their long term value through organic growth, strategic acquisitions and excellent operational management;
- Quality of service is recognised as being of prime importance in healthcare. In a highly regulated sector with a high media profile, where significant quality failures can be severely punished, maintaining a reputation for good quality of care is of prime importance in sustaining the long term value of healthcare businesses;
- Private equity companies have a strong financial incentive to sustain quality over the medium to long term, since they make their returns by holding their investments for several years and the best price on exit is likely to be achieved if there is at that time a realistic prospect of further value growth for the acquirer;
- Short term cost cutting is not generally a sensible option in healthcare. The dangers of cost cutting to relieve short term financial pressures are demonstrated in the case of Southern Cross where a failure to invest in maintenance capital expenditure as a response to financial stress was a major factor in the downward spiral in occupancy rates in a competitive market where other providers were maintaining physical standards;
- Private equity companies have a deep knowledge of the companies they back and the sectors in which they operate, and they focus strongly on recruiting and retaining excellent management who are rewarded on successful exit and crystallisation of value. Private equity companies contrast their approach with large institutional investors in public companies who, according to this critique, exercise more arms' length oversight and are content to adopt bonus arrangements which do not always reflect long term value creation and are frequently determined more by management than by owners.

There is a frequently made counter-argument, however, that healthcare is intrinsically different from other sectors of the service economy, and that the role of private equity, and for-profit companies generally, should be limited on both moral and empirical, efficiency grounds. Again, it

is beyond the scope of this report to engage in this broad debate. But two points stand out in support of a view that the way in which private equity promotes efficiency in healthcare is broadly benign and non-disruptive to the UK public:

- Vulnerable people and the services they rely on are not put at risk by the activity of private equity companies. As noted in **Section 5**, there is no case in which any private equity failure or restructuring since 2008 has resulted in significant ‘service discontinuity’ in the form of precipitate closures of services on which vulnerable people rely. In each of the seven business failures and restructurings which have taken place involving (broadly defined) private equity backed companies, the main if not the sole consequence has been losses to investors and banks. The underlying reason for this is that there are limited alternative uses for healthcare assets, and there is usually sufficient residual value for assets to continue in healthcare use, even their full debt burden can no longer be serviced;
- Successful private equity enterprise in the UK will almost always support UK employment. In a highly regulated sector where promotion of quality is key, any scope for reducing front line staff numbers is very limited. Moreover, there is no possibility of private equity, or indeed any other for-profit company that extends its footprint in healthcare, to move employment overseas. With occasional exceptions, such as some telehealth activities, it is clearly not possible to move healthcare services for UK residents to areas where labour costs may be lower.

In summary, there are strong *a priori* reasons for supposing that, in the post-global credit crisis environment, the interests of private equity backers of healthcare companies are well aligned with the public interest in maintaining operationally efficient businesses offering good quality services. The evidence presented in this report is also supportive of this view.

Appendix 1: Private Equity Healthcare Holdings

Table A1: Private equity and similar organisations which currently back UK health and social care companies

PRIVATE EQUITY OWNER	HEALTHCARE COMPANY	REVENUE FROM LATEST STATUTORY ACCOUNTS, £M
<p>Advent International plc <i>BVCA Member</i></p>	<p>Priory Group No. 3 plc:</p> <ul style="list-style-type: none"> - Mental health hospital sector - Special education and children’s services sector - Learning disabilities / mental health care home sector - Elderly care home sector <p>Priory Group operates mental health hospitals (1,700 beds), specialist care homes for people with learning disabilities and mental health problems (1,480 beds) special schools and colleges for young people on the autistic spectrum and other special needs (1,250 beds) and care homes for older people (2,600 beds).</p> <p>Over 90% of Priory’s revenue is publicly funded, by the NHS and local authority social service and children’s departments.</p> <p>The company was established in the 1980s by the US based Community Psychiatric Centres. In July 2005 Priory Healthcare Investments Ltd was acquired from Doughty Hanson by the Dutch Bank ABN Amro for £875 million. The price represented 23 times historic (2004) EDITDA and 12.8 times the projected ‘run rate’ EBITDA of £68m on full maturation of the existing portfolio. Following restructuring, the head company of the Priory Group became Priory Investments Holdings Ltd (PIHL), registered in the Cayman Islands. Following the acquisition of ABN AMRO by an international consortium of banks in 2007, ultimate ownership of PIHL passed to Royal Bank of Scotland, Santander and the Dutch government.</p> <p>Subsequently, in January 2011, the Priory Group was sold to private equity company Advent International for up to £925 million, equivalent to 9.3 times reported EBITDAR of £99 million for the year ending December 2010.</p> <p>In April 2011 Priory acquired Craegmoor Group Ltd (which had earlier been acquired by Advent from fellow private equity group Legal & General Ventures in July 2008) with its portfolio of specialist and elderly care homes, mental health hospital and special schools and children’s services, for a figure believed to be around £330 million, thus merging the two companies owned by Advent.</p> <p>Craegmoor Group Ltd had been founded by Warburg Pincus in 1994. Legal & General Ventures Ltd acquired the company from Warburg Pincus in July 2001 for £220 million, after which poor management led to its accounts being qualified, followed by disposal of sub-standard stock. The company’s performance having been turned round, in July 2008 Craegmoor was acquired by Advent International for a reported £285 million (unconfirmed) representing a multiple of 8.6 times EBITDAR as reported in statutory accounts to December 2007. In January 2011, as noted above, Advent International acquired the larger Priory Group, which subsequently acquired stable-mate Craegmoor in April 2011.</p>	<p>£455m <i>pro forma annualised revenue in the year to December 2011, assuming a full year contribution from Craegmoor.</i></p>
<p>Apax Partners <i>minority owner with 35% of shares</i> <i>BVCA Member</i></p>	<p>General Healthcare Mixer Partnership (GHG)</p> <ul style="list-style-type: none"> - Acute medical / surgical hospital sector <p>GHG is the market leading provider of independent acute medical/surgical hospitals in the UK through its subsidiary operating company BMI Healthcare Ltd ((BMI). About three-quarters of GHG patients in 2012 are privately funded through PMI or self payment. NHS funded patients have grown substantially in recent years, compensating for a downturn in privately funded demand, and now account for the remaining quarter of GHG patients. The BMI business, which was originally founded in the 1980s by the</p>	<p>£888m <i>in the year to Sept 2011</i></p>

Appendix 1: Private Equity Healthcare Holdings

PRIVATE EQUITY OWNER	HEALTHCARE COMPANY	REVENUE FROM LATEST STATUTORY ACCOUNTS, £M
	<p>US based American Medical international (AMI), subsequently passed through the hands of a listed French company - Compagnie Generale Des Eaux - followed by UK private equity company BC Partners, which also acquired the secure mental health hospital provider Partnerships in Care (PiC).</p> <p>Following the subsequent disposal of PiC to Cinven for £552 million net of cash on April 2005, and the sale of the occupational health business of BMI Health Services Ltd for an undisclosed sum to the Capita group in July 2005, GHG's sole remaining operating division was the medical/surgical hospital portfolio of BMI Healthcare.</p> <p>In April 2006 a controlling interest (50.1%) in GHG was acquired by Network Healthcare Holdings Ltd (Netcare), an international healthcare provider listed on the Johannesburg Stock Exchange. In a deal worth £2.2 billion (13.3 times 2006 EBITDA) Netcare itself invested £217 million along with the injection of its wholly owned UK subsidiary, Netcare Healthcare UK Ltd. The balance of the purchase price was provided by a consortium of three UK-based financial and property investors (funds advised by Apax Partners Worldwide LLP, which took approximately 35% of the shares; London and Regional Properties; and funds advised by Brockton Capital LLP) together with debt financing raised at GHG on a non-recourse basis to Netcare South Africa. The remaining shares were allocated to management.</p> <p>An Opco / Propco structure was set up at the time of the transaction in which GHG as the sole Opco entered into long term (30 year) leases with a series of Propcos (the Opco and Propcos having equity shareholders in common), with rents rising by 2.5% per annum but no rent reviews. Following the Netcare acquisition, the Amicus Healthcare division of BMI Healthcare (set up to meet the specific needs of public health sector patient contracts) was integrated into the operations of GHG's sister company, Netcare Healthcare (UK) Ltd, which operated Independent Sector Treatment Centres (ISTCs) in England. In February 2008, through its BMI Healthcare subsidiary, GHG acquired nine hospitals from Nuffield Hospitals for £140 million, of which two were subsequently sold in order to meet OFT competition concerns.</p> <p>In June 2010 GHG acquired the Abbey Hospitals group from Covenant Healthcare together with a 42% stake in cosmetic surgery provider Transform Medical Group (CS) Ltd for an undisclosed sum.</p>	
<p>Apposite Capital LLP</p> <p><i>BVCA Member</i></p>	<p>CancerPartners UK</p> <p>- Acute Medical / Surgical Hospital sector</p> <p>CancerPartners UK operates private radiotherapy centres in Portsmouth, Southampton and Elstree, with a fourth in planning, all located within Spire Healthcare hospitals. The great majority of patients are privately funded, either through private medical insurance or self payment, though some may be funded by the NHS.</p>	<p>£8.9m</p> <p><i>in the year to June 2011</i></p>
<p>August Equity LLP</p> <p><i>BVCA Member</i></p>	<p>Active Assistance (UK) Group Ltd</p> <p>- Community health and home healthcare sector</p> <p>Active Assistance Group provides live-in and live-out complex care services for adults and children, including the following client groups: spinal cord injury, post-trauma patients, complex clinical conditions (adult and paediatric) such as MS, cerebral palsy, learning disabilities, mental health, assisted ventilation and brain injury rehabilitation.</p> <p>Virtually all revenue is publicly funded, by Primary Care Trusts and other NHS commissioning agencies. In March 2010 August Equity made a commitment of £23 million to fund the merger of Active Assistance (formerly owned by Isis Equity Partners) and First Call Care Services Limited, an existing August Equity portfolio company, and subsequent acquisitions. In April 2011 Active acquired domiciliary care based Qura Brain Injury Services, which provides services throughout the South West, and in February 2012 acquired Neural</p>	<p>£5.7m</p> <p><i>in the year to March 2010</i></p>

Appendix 1: Private Equity Healthcare Holdings

PRIVATE EQUITY OWNER	HEALTHCARE COMPANY	REVENUE FROM LATEST STATUTORY ACCOUNTS, £M
	<p>Pathways (UK), which provides outcome based rehabilitation therapy for individuals with a range of neurological conditions including acquired brain injury, stroke, spinal injury, multiple sclerosis, Huntingdon's disease and Parkinson's disease. At the time of the latter deal August Equity stated that Active Assistance was providing care to 350 service users, with over 700 employees. Active is understood to be August Equity's fastest growing healthcare portfolio company, albeit from a small base.</p>	
	<p>Enara Ltd - Domiciliary social care and supported living sector</p> <p>Enara is a domiciliary care provider focusing primarily on older clientele, about 80% funded by the public sector and 20% privately paid. The company was acquired by August Equity in November 2008, alongside First Call Care Services Ltd, with the aim of pursuing a buy-and-build strategy. Enara has made more than 20 further bolt-on acquisitions since it was acquired by August Equity.</p>	<p>£51m <i>in the year to March 2011</i></p>
<p>NB: At the time of writing this report Lifeways was set to be acquired by OMERS Private Equity, the investment arm of Canadian pension fund OMERS (Ontario Municipal Employees Retirement System).</p>	<p>Lifeways Community Care Ltd - Domiciliary social care and supported living sector</p> <p>Lifeways, established in 1995, is a national provider of specialised community care services with a primary focus on non-residential services for people with learning disabilities, almost entirely publicly funded. The company offers flexible levels of support including supported living services, small group specialist residential care, respite care or short breaks, individual one-to-one support services and other individually tailored packages of support.</p> <p>Lifeways supports people with diverse complex needs, including those with learning disabilities, physical disabilities, mental health needs, sensory impairment, challenging behaviours and multiple needs. Care is also available for people with specialty needs, including autistic spectrum disorders, Prader-Willi Syndrome, Aspergers Syndrome, dual diagnosis, acquired brain injuries and forensic backgrounds. Lifeways is backed by private equity company August Equity LLP, which has made eight acquisitions in the period between acquiring the company in 2007 and 2011.</p> <p>According to August Equity, Lifeways currently (2012) supports 3,200 people with learning disabilities, accounting for approaching 10% of the company's addressable market.</p>	<p>£66m <i>in the year to May 2011</i></p>
	<p>Aspirations Care Ltd - Domiciliary social care and supported living sector</p> <p>Aspirations Care provides specialist supported living and community support for adults and children who have mental health problems and/or profound learning disabilities, autism and those who can display complex and challenging behaviours. In May 2012 August Equity completed a buy-in management buy-out of the company which at the time of the deal claimed to be one of the largest businesses in its field, providing services nationally to over 700 people and employing over 1,000 staff.</p>	<p>£6.4m <i>in the 18 months to October 2011</i></p>
<p>AXA Private Equity UK Ltd <i>BVCA Member</i></p>	<p>The James Hull Group Ltd - Dental services sector</p> <p>Specialist Dental Holdings, trading as James Hull Associates, is a dental surgery group with practices throughout London, the Midlands and South Wales, with a focus on premium, privately-paid, specialist, and cosmetic dental treatment. In November 2006 private equity company Hutton Collins acquired a 43% stake in the business for a reported £93 million. The company over-reached itself with an ambitious acquisition strategy, coupled with challenging economic conditions post-2008, and the company fell into</p>	<p>£57.4m <i>in the year to April 2011</i></p>

Appendix 1: Private Equity Healthcare Holdings

PRIVATE EQUITY OWNER	HEALTHCARE COMPANY	REVENUE FROM LATEST STATUTORY ACCOUNTS, £M
	<p>administration at the end of 2010. Following a pre-packaged administration deal, former minority shareholder AXA Private Equity emerged in January 2011 as the majority stakeholder in the business for an investment of £7 million.</p>	
<p>Barclays, Royal Bank of Scotland, Lloyds and Bank of Ireland</p>	<p>Ultralase Ltd - Acute medical / surgical hospital sector</p> <p>Ultralase is a chain of UK corrective eye laser clinics. The company was acquired by private equity firm 3i Group for £174 million in February 2008.</p> <p>In a financial restructuring in February 2010, which wiped out 3i's investment, Ultralase was sold to CLVC Group Ltd, a company jointly owned by the private equity arms of Ultralase's senior debt lenders, Barclays, Royal Bank of Scotland, Lloyds and Bank of Ireland, with a minority stake held by management.</p>	<p>£37.3m <i>in the year to December 2010</i></p>
<p>Blackstone Group International Partners LLP <i>owner until 2006</i></p> <p><i>BVCA Member</i></p>	<p>Southern Cross Healthcare Group plc - Elderly care home sector - Learning disabilities / mental health care home sector</p> <p>Southern Cross is included in this Table solely because of its past private equity ownership, which ended in 2006 when the company floated on the London Stock Exchange.</p> <p>Until winding down from July 2011, Southern Cross had been the largest care home group in the UK. The company operated on a pure 'Opco' business model, choosing to dispose of all of its property assets to landlords from which it leased them back.</p> <p>The large scale Southern Cross business was put together in the early 2000's by US-based private equity group Blackstone through the purchase of three 'opcos' - Southern Cross, Highfield and Ashbourne - and the separate acquisition of care home landlord NHP plc in 2005. A year later, in March 2006, Blackstone sold NHP with its 294 freeholds to Royal Bank of Scotland for a sum reported to be £1 billion, leaving Southern Cross as the operator of the care homes paying an initial yield of 5.25%.</p> <p>In July 2006 the company was floated on the London Stock Exchange. Following flotation Southern Cross pursued a successful policy of acquiring care home portfolios and recouping its acquisition costs by selling freeholds to property investors at a similar price, thus obtaining the operating business at zero cost, aided by its strong covenant and the low yields accepted by property investors. The acquisition model stalled in 2008 when, as a consequence of the global credit crisis and rise in yields expected by property investors, Southern Cross was unable to sell on the freeholds of the north east based Portland group of care homes acquired in March 2008 except at a book loss.</p> <p>The events, coupled with concerns about over-gearing and minimum future rent rises, precipitated a crash in the company's share price. By 2011 the company's financial position had worsened as a result of falling occupancy rates and a freeze in local authority fee rates.</p> <p>In June 2011 the company sought to buy time to facilitate a financial restructuring by reducing the rents it paid to its landlords. However, only a month later the majority of landlords signalled their intention to take back their care homes and either operate them themselves (in the case of homes owned by the Four Seasons and Bondcare groups) or seek alternative operators.</p> <p>The orderly transfer of the entire Southern Cross portfolio to new operators was completed in November 2011.</p>	<p>£959m <i>in the year to September 2010</i></p>

Appendix 1: Private Equity Healthcare Holdings

PRIVATE EQUITY OWNER	HEALTHCARE COMPANY	REVENUE FROM LATEST STATUTORY ACCOUNTS, £M
Bowmark Capital LLP <i>BVCA Member</i>	Glenside Care Group Ltd - Mental health hospital sector Glenside Care Group provides care for people with acquired brain injuries, dementia, and general medical conditions. The company plans to open a second facility in May 2012, Glenside Farnborough, offering individual living and support options for adults with long term neurological conditions. In February 2011 Glenside Care was acquired by funds managed by Bowmark Capital LLP.	£11.3m <i>in the year to March 2011</i>
	Healthcare Homes Holdings Ltd - Elderly care home sector Healthcare Homes was formed in August 2005 with the £37m acquisition of four-homecare chain Abbot Healthcare plc, with the aid of a £60m funding stream from investment banking group Kleinwort Capital Ltd (subsequently renamed August Equity). Healthcare Homes subsequently made several acquisitions, including the purchase of the entire portfolio of eight homes belonging to Pri-Med Group in May 2006, and the purchase of Manorcourt Care (Norfolk) Ltd and its three care homes in March 2008. The group also operates a domiciliary care division, trading under the name of Manorcourt Homecare. In April 2008, Bowmark Capital LLP backed the directors of Healthcare Homes in a management buyout which saw August Equity exit from its investment.	£36m <i>in the year to September 2010</i>
	Kisimul School Holdings Ltd - Special education and children's services sector The Kisimul Group is a Lincolnshire based provider of education and care services for children and young adults with complex learning difficulties, challenging behaviour, high functioning autism and global developmental delay. Kisimul was acquired by Bowmark Capital LLP in 2006.	£29.8m <i>in the year to December 2010</i>
Bridgepoint <i>BVCA Member</i>	Care UK Health & Social Care Holdings Ltd - Acute medical / surgical hospital sector - Elderly care home sector - Domiciliary social care and supported living sector - Primary healthcare sector Care UK is a provider of a range of health and social care services, primarily for the public sector, with about 90% of revenue derived from the NHS and local authorities. The company's healthcare division includes independent sector treatment centres (ISTCs) in addition to primary care centres. In April 2007 the company acquired ISTC provider Mercury Health from Tribal Group for £78 million, to make it the country's largest ISTC provider. The social care division includes care homes for older people and younger adults with learning disabilities or mental health problems, in addition to supported living and domiciliary care services. The company was a provider of children's homes and fostering services but exited in 2011. In April 2010 Care UK was acquired by Bridgepoint, the private equity group, in a public to private management buy-out which valued the company at £423 million, a multiple of 7.1 times historic EBITDA for the year ending September 2009. Since the buyout, Care UK has committed in principle to substantial investment in high quality, new build care homes for older people targeted at the private as well as the publicly funded market.	£446m <i>in the year to September 2011</i>

Appendix 1: Private Equity Healthcare Holdings

PRIVATE EQUITY OWNER	HEALTHCARE COMPANY	REVENUE FROM LATEST STATUTORY ACCOUNTS, £M
<p>Carlyle Group <i>BVCA Member</i></p>	<p>ADP Primary Care Services Ltd (ADP Group) and Pearl Topco (IDH Group) - Dental services sector</p> <p>ADP, established in 1985, is a dental services group which operates in a geographical spread from Durham to Somerset. The company has grown through a combination of winning PCT tenders and acquiring practices. In early 2002 the founders sold the business to a private equity company, European Acquisition Capital (EAC).</p> <p>In March 2007 EAC, now called Milestone Capital, sold their investment in ADP to the management and Iceland based Kaupthing Capital Partners, for an undisclosed sum. A new holding company, ADP Healthcare Services Ltd was formed, and additional debt was provided by Kaupthing Bank to provide working capital for continued growth. Kaupthing subsequently fell into administration and, in December 2009, a majority stake in ADP was acquired by Palamon Capital Partners from Smith & Williamson, the administrators of Kaupthing Capital Partners, in a transaction valued at £136m, being 14.8 times historic EBITDAR according to ADP's statutory accounts for the year ending April 2009.</p> <p>Palamon's co-investors in ADP were AlInvest Partners, Morgan Stanley Alternative Investment Partners and LDC.</p> <p>IDH Group operates a chain of dental practices through its trading subsidiaries Whitecross Dental Care Ltd and Petrie Tucker and Partners Ltd and Orthoworld 2000 Ltd. IDH was founded in 1996 and floated on the main market of the London Stock Exchange in February 2002 under the name Integrated Dental Holdings plc. The company had previously acquired AIM listed Whitecross Dental Care in November 2000. In September 2004 the company was taken private by Diverse Holdings Ltd, the takeover vehicle created by IDH's management team, which paid £12.7 million. In April 2006 Legal and General Ventures acquired a majority shareholding in the company for an undisclosed sum. In 2008 the IDH Group was acquired by Bank of America Merrill Lynch Capital Partners through its bid vehicle, Pearl Topco Ltd, in a deal reported to be worth £300m.</p> <p>In May 2011 a deal was completed which saw ADP merge with IDH, to form the UK's largest private sector dental group consisting of 450 practices serving 3.5 million patients, majority owned by the US-based private equity company, The Carlyle Group. The combined group caters for both NHS and privately paying dental patients, with NHS funding predominating.</p>	<p>ADP £79m <i>in the year to March 2011</i></p> <p>IDH £220m <i>in the year to April 2011</i></p>
<p>Charterhouse Capital Partners <i>BVCA Member</i></p>	<p>Tunstall Healthcare Group Ltd - Telecare and telehealth sector</p> <p>Established in the UK in 1957, Tunstall Group claims to be the world's leading provider of telecare and telehealth solutions. The company manufactures, installs, maintains and services communications systems, principally for older or disabled people, and operates in 30 countries supporting 2.5m people around the world.</p> <p>Backed by the venture capital company HgCapital in the early 2000s, the company was acquired by Bridgepoint together with Attendo Care in 2005 for a combined enterprise value of £255 million. In March 2008, Charterhouse Capital Partners acquired what was believed to be a 60% stake in the company for £514m</p>	<p>£148m <i>in the year to September 2010</i></p>
<p>Charterhouse Capital Partners, CVC Capital Partners and Permira <i>jointly funded the merger of AA and Saga under Acromas Holdings in 2007</i> <i>BVCA Members</i></p>	<p>Allied Healthcare Group Holdings Ltd - Domiciliary social care and supported living sector</p> <p>Allied Healthcare is a domiciliary care provider and a provider of temporary nursing and care staff to hospitals, care homes and private individuals throughout most of the UK. Domiciliary care accounts for about 75% of revenue, the bulk of it publicly funded mainly from contracts with councils with social service responsibilities. The company operates a network of</p>	<p>£180m <i>in the year to September 2011</i></p>

Appendix 1: Private Equity Healthcare Holdings

PRIVATE EQUITY OWNER	HEALTHCARE COMPANY	REVENUE FROM LATEST STATUTORY ACCOUNTS, £M
	<p>approximately 115 branches with the capacity to provide carers and nurses to locations covering approximately 90% of the UK population. Allied Healthcare was listed on NASDAQ, and formerly on London's Alternative Investment Market as well, prior to agreeing to a sale in July 2011 to Saga Group Ltd (in turn owned by Acromas Holdings Ltd) for \$175 million (£108 million). The sale price represented 7.7 times historic EBITDA for the year ending September 2010. The sale makes Allied Healthcare a sister company of domiciliary care and primary healthcare provider Nestor Healthcare, acquired by Saga Group in December 2010.</p>	
	<p>Nestor Healthcare Group plc - Domiciliary social care and supported living sector - Primary healthcare sector</p> <p>Nestor operates two divisions, Social Care and Primary Care. The Social Care division consists primarily of domiciliary care agencies providing homecare services under contract to local authorities and, to a lesser extent, for privately paying clients through a network of 120 owned branches (under the Goldsborough Home Care; Medico Nursing and Homecare; and Country Cousins brands) and (until their sale in 2008) a similar number of franchised operations branded as Carewatch.</p> <p>The Primary Care division is entirely publicly funded and provides general practitioner out-of-hours and walk-in primary care services to Primary Care Trusts, secure institutions and police forces through the Primecare, Cornelle, Primecare Forensic Medical (PFM) Secure and Police brands.</p> <p>In September 2008 Nestor sold the Carewatch social care franchise business to a company controlled by Lyceum Capital for £37 million to be paid in cash, on a 'debt-free' and 'cash-free' basis. In December 2010 the Nestor Board recommended acquisition of its entire share capital by Saga Group Ltd, a subsidiary of Acromas Holdings Ltd, for 110 pence per share, valuing Nestor's share capital at £133 million, being 9.35 times Nestor's historic EBITDAR for the year ending December 2009. Saga Group subsequently acquired Allied Healthcare Group in July 2011, making Nestor and Allied sister companies.</p>	<p>£155m <i>in the year to December 2010</i></p>
<p>Cinven <i>BVCA Member</i></p>	<p>Partnerships in Care Group Ltd - Mental health hospital sector</p> <p>Partnerships in Care has been operating since 1985 providing a range of secure and other specialist mental health facilities and services which are usually commissioned by the NHS, with the remainder purchased by local authorities.</p> <p>Services offered include medium and low secure psychiatric units (in which segment the company is the national market leader), psychiatric rehabilitation, special units for people with learning disabilities, community placements for supported living, brain injury rehabilitation units, and accommodation for older mentally ill people. All the facilities owned by Partnerships in Care specialise in caring for patients from a variety of difficult or challenging groups. The company also operates an Employee Assistance Programme under the Care First brand.</p> <p>In March 2005 Partnerships in Care was acquired for £552 million net of cash by the private equity company Cinven from General Healthcare Group, owners of the medical/surgical hospital chain BMI Healthcare.</p> <p>Cinven had previously owned General Healthcare Group (including Partnerships in Care) from 1997 to 2000, when the group was acquired by BC Partners. The price of £552 million represented 14 times historic EBITDAR of £39.1 million posted in Partnerships in Care's statutory accounts for the year to December 2004.</p>	<p>£187m <i>in the year to December 2010</i></p>

Appendix 1: Private Equity Healthcare Holdings

PRIVATE EQUITY OWNER	HEALTHCARE COMPANY	REVENUE FROM LATEST STATUTORY ACCOUNTS, £M
	<p>Spire Healthcare Limited Partnership (registered in Guernsey) - Acute medical / surgical hospital sector</p> <p>Spire is the UK's second largest independent hospital provider after General Healthcare Group. About three-quarters of patients are privately funded through private medical insurance or self payment, with the remaining quarter funded by the NHS.</p> <p>In June 2007 Cinven acquired Bupa Hospitals, which it subsequently rebranded Spire Healthcare, for a consideration of £1.44 billion, representing 14 times projected EBITDA for the year ended 31 December 2007. Two years earlier, in July 2005, Bupa had disposed of nine of its hospitals to Classic Hospitals, backed by Legal & General Ventures, for an aggregate price of £85m. In February 2008 Spire Healthcare re-acquired the Classic Hospitals portfolio, which had in the interim been enlarged by the acquisition of the Lourdes Hospital in Liverpool, from Legal & General for £145 million.</p> <p>Spire operates cancer services at four of its hospitals in partnership with CancerPartnersUK.</p>	<p>£643m <i>in the year to December 2010</i></p>
<p>ECI Partners LLP <i>BVCA Member</i></p>	<p>HWH Group Ltd - Primary healthcare sector</p> <p>Harmoni is a for-profit provider of primary care and IT services. Its origins are in the healthcare GP co-operative movement and GPs continue to hold 50% of its shares. It is part owned by private equity company ECI, which backed an MBO in 2002.</p> <p>The company has four principal divisions: urgent care, including GP out-of-hours services; 'equitable access' GP-led health centres; joint ventures with local GP provider companies (GPPCs), which may be structured as social enterprises to provide a range of primary medical care services); and IT services to support the delivery of local healthcare services.</p> <p>In addition, the Harmoni for Health division specialises in secure healthcare services for offenders in prisons, custody and secure hospital settings.</p>	<p>£89.7m <i>in the year to March 2011</i></p>
<p>Duke Street Capital <i>BVCA Member</i></p>	<p>Duke Street Capital Oasis Holdings Ltd - Dental services sector</p> <p>Oasis Healthcare is the UK's second largest dental surgery company with 200 practices and 850 dentists (in 2012) serving a mix of NHS, private and specialist patients. The company was floated on the Alternative Investment Market in June 2000. In November 2002 Oasis Healthcare acquired Ora Dental Group and in January 2003 it acquired Dencare Management Ltd. In August 2007 Oasis accepted a bid from Duke Street to take the company private by acquiring the entire share capital for 94 pence per share, valuing the company at £88.2 million, representing 9.7 times EBITDA of £9.1 million for the year March 2007.</p>	<p>£136m <i>in the year to March 2011</i></p>
<p>GI Partners (USA)</p>	<p>Cambian Group - Special education and children's services sector - Mental health hospital sector</p> <p>Cambian is a provider of specialist services in special education, mental health rehabilitation and learning disabilities with a focus on autistic spectrum disorders, formed in 2010 from the integration of Cambian's healthcare and special education divisions with Care Aspirations under the ownership of GI Partners. The company was initially set up in March 2004 in a £10.8m management buy-out of facilities owned by NHP plc, subsequently repositioned as mental health hospitals, backed by USA private equity investor GI Partners. In September 2005, GI Partners acquired on behalf of a sister Cambian company the majority of the special schools and colleges operated by The Hesley Group, for a rumoured £100m. In August 2008 GI Partners acquired Care Aspirations Ltd for a reported £60m to £70m. Both are now part of the restructured Cambian Group.</p>	<p>£124m <i>in the year to December 2011:</i> consisting of: Special education, £55m; Mental health hospitals, £46m; LD care homes. £23m.</p>

Appendix 1: Private Equity Healthcare Holdings

PRIVATE EQUITY OWNER	HEALTHCARE COMPANY	REVENUE FROM LATEST STATUTORY ACCOUNTS, £M
	<p>Advanced Childcare Ltd - Special education and children's services sector</p> <p>Established in 1996, Advanced Childcare Ltd provides specialist care and education in children's homes and special schools for young people aged 10 - 17, in addition to fostering services. Operating in Greater Manchester and West Midlands, all of the company's facilities are situated in areas which offer young people a wide range of cultural and recreational opportunities. In order to ensure that children and young people can remain close to their home, family and contacts.</p> <p>The company was backed by Bowmark Capital until its sale in March 2011 to United States based GI Partners (backers of the Hesley Group and the Cambian Group, including Care Aspirations) for a reported £30 million, equivalent to 8.6 times EBITDAR for the year ending September 2010. In April 2012 Advanced Childcare acquired Continuum Care and Education Group from 3i for an undisclosed sum.</p> <p>In a statement, Advanced Childcare said the deal would create the largest provider of specialist children's care and education services in the UK with 143 children's homes, 15 special schools and over 100 fostering placements, employing over 1,400 people.</p>	<p>Advanced Childcare £14.9m <i>in the year to September 2010</i></p> <p>Continuum Care and Education Group £29.2m <i>in the year to December 2010</i></p>
<p>Graphite Capital Management LLP</p> <p><i>BVCA Member</i></p>	<p>AHL Healthcare (Avery), Optimum Care Ltd and Willowbrook Healthcare Ltd - Elderly care home sector</p> <p>Avery Healthcare was set up by Graphite Capital in 2005 to pursue a buy-and-build strategy in the care home sector. The majority of the homes operated by Avery Healthcare were acquired by Southern Cross Healthcare Group in June 2007, leaving Avery with three homes and two development sites.</p> <p>While maintaining the Avery name for branding purposes, Graphite Capital injected Avery's remaining care home assets into a new company, Optimum Care Ltd, which it continued to expand from 2007 with a focus on high quality new-build homes in different parts of Britain, primarily though not exclusively targeted at private payers. Graphite subsequently formed a second company, Willowbrook Healthcare Ltd, to pursue a similar policy of expansion with a focus on new-build homes.</p> <p>Optimum and Willowbrook are separated for financial structuring reasons, but their portfolios are operated by the same management team under the Avery banner.</p> <p>National Fostering Agency Ltd - Special education and children's services sector</p> <p>NFA is the UK's second largest fostering agency. The company was acquired in January 2007 by Sovereign Capital Partners for an undisclosed sum. Sovereign sold its interest in NFA to fellow UK private equity company Graphite Capital in January 2012, again for an undisclosed sum. The company generates virtually all its revenue from public funding.</p> <p>Lasercare Clinics (Harrogate) Ltd - Acute medical / surgical hospital sector</p> <p>sk:n (skin knowledge network), the trading name of Lasercare Clinics Ltd, is a nationwide chain of clinics offering a range of non-surgical skin and cosmetic treatments including laser-based treatments for hair removal and skin rejuvenation. Graphite Capital led the management buy-in/buy-out of sk:n in January 2006.</p>	<p>Optimum Care Ltd £13.4m <i>in the year to March 2010</i></p> <p>Willowbrook Healthcare £5.1m <i>in the year to March 2011</i></p> <p>£54m <i>in the year to March 2011</i></p> <p>£24.8m <i>in the year to August 2010</i></p>

Appendix 1: Private Equity Healthcare Holdings

PRIVATE EQUITY OWNER	HEALTHCARE COMPANY	REVENUE FROM LATEST STATUTORY ACCOUNTS, £M
<p>Granville Baird Capital Partners</p>	<p>Castlecare Group Ltd - Special education and children's services sector</p> <p>CastleCare operates a national network of schools and children's homes across England & Wales, accommodating children with complex and challenging needs. Specialist services include residential treatment programmes for sexualised behaviour.</p> <p>The CastleCare Group of companies started trading in Kent in the late 1980's and expanded throughout the 1990's and first part of 2000's through the opening of new homes. The principal subsidiaries of the holding company, CastleCare Group comprise: Castle Homes Ltd, Castle Homes Care Ltd, CastleCare Cymru Ltd, Quantum Care UK Ltd and CastleCare Education Ltd. In July 2004, Granville Baird Capital Partners, the European mid-market private equity firm, invested £9 million in a £22.4 million management buy-out of CastleCare Group. Since then Granville Baird has made a series of investments in the business including the acquisition of Sovereign Care.</p>	<p>£21.9m <i>in the year to December 2010</i></p>
<p>Grove Ltd registered in Jersey</p>	<p>Barchester HoldCo (Jersey) Ltd - Elderly care home sector - Learning disabilities / mental health care home sector - Mental health hospital sector</p> <p>Barchester Healthcare is a major provider of care homes catering for self-paying older residents (the largest single group) as well as older residents funded by the NHS and local authorities. The company also provides some specialist care for younger adults with learning disabilities or mental problems, funded by local authorities or the NHS.</p> <p>In June 2004, Barchester announced a strategic alliance with the mental health hospital provider Cygnet Healthcare, cemented by cross shareholdings, with a view to possible acquisition of Cygnet by Barchester at some stage in the future. In October 2004 Barchester acquired 3i owned Westminster Health Care Holdings Ltd for £525m, making it Britain's fourth largest care home group at the time. The Barchester group refinanced its care home holdings in 2007, raising £572 million by issuing a bond securitised on the company's (then) 160 care homes. Barchester Healthcare is financially backed by individual investors including John Magnier with a 22% stake in the company, JP McManus (14%) and Dermot Desmond (15%).</p> <p>Sister companies with investors in common include Castlebeck Group Ltd, Richmond Care Villages and the children's nursery company Casterbridge Care & Education Group Ltd.</p>	<p>£433m <i>in the year to December 2010</i></p>
<p>Hermes GPE LLP</p>	<p>ILG Holdings Ltd - Learning disabilities / mental health care home sector</p> <p>ILG (Independent Living Group) is a provider of residential care for adults with severe and profound learning disabilities in the South East of England. Virtually all residents are publicly funded. The company's areas of care include: autistic spectrum disorder, acquired brain injuries, Huntington's disease, learning disabilities with physical disabilities, and learning disabilities with visual impairment.</p> <p>ILG focuses on providing high quality care in small, modern homes located in Kent, East and West Sussex and Hampshire. ILG has been built up through acquisitions as well as organic growth, and trades under the names of ILIACE (Independent Living in a Caring Environment) and Evesleigh. In December 2006 ILG was acquired by Hermes Private Equity for an undisclosed sum, with plans to expand both organically through new build and through acquisition.</p> <p>The company, however, was unable to service its debt obligations and as part of a restructuring was sold in February 2012 for a nominal sum to turnaround specialist James Hayward.</p>	<p>£19.8m <i>in the year to March 2010</i></p>

Appendix 1: Private Equity Healthcare Holdings

PRIVATE EQUITY OWNER	HEALTHCARE COMPANY	REVENUE FROM LATEST STATUTORY ACCOUNTS, £M
<p>Hg Capital and SL Capital Partners</p> <p><i>BVCA Members</i></p>	<p>Voyage Holdings Ltd</p> <ul style="list-style-type: none"> - Learning disabilities / mental health care home sector - Domiciliary social care and supported living sector <p>Formerly known as Paragon Healthcare, Voyage operates across England and with a presence in Scotland and Wales. The group formerly operated under three divisions, Milbury, Voyage and Headwind, prior to consolidation into the single brand, Voyage, in October 2007. The company's foundations were built upon the provision of smaller, specialised residential and nursing accommodation, for people with a wide range of learning disabilities and autism, particularly those with more complex needs. More recently the company has diversified into the provision of supported housing and a wide range of creative community support options, which enable its service users to live with greater independence and control over their lives.</p> <p>Voyage has shown a preference for organic growth rather than bolt-on acquisitions, investing over £100 million in new services since 2004, a high proportion of this going into modern, new-build developments. Voyage has further diversified into new markets in recent years, increasing its presence in the field of acquired brain injury and neuro-rehabilitation to 20 services, making it the second biggest provider in the UK, and entering the home based complex care market with the acquisition in December 2010 of North East England and Yorkshire-based operator, Partners in Specialist Care, which specialises in home-based complex care for adults and children with head and spinal injuries and neurological conditions. In a further extension of services, in autumn 2010, the Voyage Options brand was introduced into the portfolio, offering flexible, individual support solutions, for people living in their own home or rented property. Voyage was acquired by venture capital company Duke Street Capital in September 2001. The group was subsequently sold to fellow private equity company Hg Capital in March 2006 for £322 million, representing 20 times historic EBITDA for the year to March 2006 (16.4 times EBITDAR) and 10 times run rate EBITDA on maturation of open places and pipeline sites.</p> <p>In April 2012 Voyage announced the acquisition of Solor Care, previously owned by Barclays Ventures, Royal Bank of Scotland and Solor's management. As well as extending Voyage's scale in providing existing services for younger adults with complex needs, the acquisition also added children's services and higher acuity nursing settings to the group's offering. Solor Care Group, formerly known as Robinia, was founded in 1995 and operates a portfolio of care home services located across the Midlands, North, South, South East and London. Solor provides care for adults with a wide range of learning disabilities and other complex needs including those within the Autistic Spectrum. Care is additionally provided through domiciliary care, supported living and day care services. In February 2002 the company acquired ELIFAR. In September 2003 it completed a £50m transaction with private equity company Bridgepoint that resulted in the private equity provider taking a majority stake in the business. In January 2006 Bridgepoint sold the group for £80 million to Barclays Private Equity, which took a majority stake, with Lloyds Development Capital co-investing in the deal.</p> <p>The sale price of £80 million represented 11.8 times historic EBITDA in the year to June 2005 (8.1 times EBITDAR). The company was, however, unable to service its debt and in March 2009 a debt for equity financial restructuring took place as a result of which Barclays and Royal Bank of Scotland became the principal shareholders of the company.</p>	<p>Voyage £143m <i>in the year to March 2011</i></p> <p>Solor Care £37.4m <i>in the year to June 2011</i></p>
<p>Isis EP LLP</p> <p><i>BVCA Member</i></p>	<p>James Bowers Education Ltd</p> <ul style="list-style-type: none"> - Special education and children's services sector <p>James Bowers, trading as the Witherslack group provides care and education for children with special needs.</p> <p>Isis Equity Partners invested in the company in 2011.</p>	<p>£22.9m <i>in the year to August 2010</i></p>

Appendix 1: Private Equity Healthcare Holdings

PRIVATE EQUITY OWNER	HEALTHCARE COMPANY	REVENUE FROM LATEST STATUTORY ACCOUNTS, £M
<p>Lloyds Banking Group plc, Commerzbank AG and M&G Investments, part of Prudential plc</p>	<p>Alliance Medical Group Ltd - Diagnostic imaging sector</p> <p>Alliance Medical is a UK based provider of outsourced radiology imaging services in Europe. In November 2007 the company was purchased by Dubai International Capital LLC (DIC) from Bridgepoint for a gross valuation of £600 million, representing a multiple of 16.4 times historic EBITDA of £36.6 million for the year ending March 2007.</p> <p>Bridgepoint retained a 16% stake in the company. At the time Alliance owned more than 190 scanners covering MRI, CT and PET imaging within 16 European countries, working in partnership with national health providers and independent healthcare partnerships. In September 2008 Alliance acquired Lodestone Patient Care from Australian based diagnostic imaging network I-MED, owned by CVC Capital Partners, for an undisclosed sum. Following a downturn in financial performance from 2009, Alliance agreed a capital restructuring deal with its lenders and investors which saw the stake of DIC cut to just 2.5% from 60%, while minority investor Bridgepoint was diluted pro-rata down to an insignificant percentage shareholding. In November 2010 control passed to the senior lenders, led by Lloyds Banking Group plc, Commerzbank AG and M&G Investments, part of Prudential plc, which took an 85% stake as part of a debt-for-equity swap. The company's mezzanine lenders took a 2.5% stake and management the remaining 10%.</p> <p>Under the agreement, Alliance Medical's debt was narrowed to approximately £250 million from more than £570 million. In addition, the senior lenders committed to inject £60 million into the company, to be used for management's planned expansion of the business. The new UK parent undertaking of the business is Alliance Medical Group Ltd.</p>	<p>£246m <i>in the year to March 2011</i></p>
<p>Lyceum Capital Partners LLP</p> <p><i>BVCA Member</i></p>	<p>Carewatch Holdings Ltd - Domiciliary social care and supported living sector</p> <p>Carewatch is a national domiciliary care business which operates partly through directly managed branches and partly through franchises. It provides services to elderly people, people with physical or learning disabilities, people discharged from hospital, children and families where the parents or the children have special needs, people with mental health problems, people who have an acquired head injury, people with dementia, Alzheimer's disease or other long term illnesses or conditions and people who need end-of-life care.</p> <p>Founded in 1993, Nestor Healthcare Group plc acquired 51% of Carewatch in 1998 and the remainder in 2001. In September 2008 Carewatch was sold for £37 million to a company controlled by the UK mid-market private equity group Lyceum Capital. At the time of acquisition there were 125 franchised offices within the Carewatch Business network run by 79 franchisees, alongside a further 11 company-owned branches. The majority of care is provided through franchisees, who pay the Group a management service fee based on a percentage of revenue. The remainder of the care is provided by company-owned branches.</p>	<p>£38m <i>in the year to December 2010</i></p> <p><i>Note: combined direct sales plus gross sales of franchisees are estimated at £135m</i></p>
<p>Lydian Capital</p>	<p>CB Care Ltd (Castlebeck Group) - Mental health hospital sector</p> <p>Castlebeck Group, established in 1987 in the north of England, is a provider of specialist healthcare and rehabilitation in mental health hospitals and care homes for adults with learning disabilities, with expertise in challenging behaviour, dual diagnosis, autistic spectrum disorders and complex needs. The company works in partnership with the NHS, local authorities and other statutory agencies providing services to users from across the UK. In July 2002, backed by venture capital company Hg Capital, Castlebeck was the subject of a £47 million secondary management buyout from former investor 3i.</p>	<p>£87m <i>in the year to December 2010</i></p>

Appendix 1: Private Equity Healthcare Holdings

PRIVATE EQUITY OWNER	HEALTHCARE COMPANY	REVENUE FROM LATEST STATUTORY ACCOUNTS, £M
	<p>Hg sold Castlebeck for £255 million in May 2006 to Castle Holdings Ltd, a Jersey-based operation owned by Geneva based private equity group Lydian Capital (Lydian's shareholders include Denis Brosnan, John Magnier and JP McManus, who are also investors in Barchester Healthcare). The price of £255 million represented approximately 24 times historic EBITDAR of £9.5 million in the year to November 2005. In August 2007 Castlebeck acquired Mental Health Care (UK) Ltd for an undisclosed sum with its portfolio of three hospitals, 18 care homes and two supported tenancy schemes in North Wales and the Wirral for people with learning disabilities and mental health problems.</p> <p>In 2011 the company was hit by highly adverse publicity surrounding its Winterbourne View unit in Bristol, as a result of a Panorama programme revealing abusive treatment of residents. Subsequent to the programme Castlebeck closed Winterbourne View and two other units.</p>	
<p>MMC Ventures Ltd <i>BVCA Member</i></p>	<p>The Practice plc - Primary healthcare sector</p> <p>The Practice operates GP surgeries staffed by salaried GPs and provides other primary care services including secure services into prisons and detention centres. In December 2006 venture capital firm MMC Ventures (MMC) acquired a minority stake in the company for £865,000. The Practice acquired Chilvers McRea for an undisclosed sum in November 2010, to become the largest group of GP practices in the UK.</p>	<p>£26m <i>in the year to March 2011</i></p>
<p>Moonray the private equity arm of Fidelity International Ltd</p>	<p>Optegra UK Ltd - Acute medical / surgical hospital sector</p> <p>Optegra is a specialist provider of ophthalmic services in the UK and selected international markets, offering a range of services including refractive, retinal, glaucoma, oculoplastics, and screening. It was established in 2007 and in 2010 acquired the Yorkshire Eye Hospital and Aston University Day Hospital. In addition, Optegra has four purpose-built sites in the UK and in January 2011 acquired the German eyecare chain Augentis.</p>	<p>£3m <i>in the year to June 2010</i></p>
<p>Phoenix Equity Partners <i>BVCA Member</i></p>	<p>Porthaven Care Homes LLP - Elderly care home sector</p> <p>Porthaven operates purpose-built premium quality care homes for the frail elderly and those living with dementia, focusing predominantly on the self-pay market. The business was founded by John Storey in 2005. Porthaven is a wholly owned subsidiary of Cannon Capital Partnership LLP, which develops care homes which are leased on 30 year leases to Porthaven or 3rd party operators. Phoenix Equity Partners invested in Porthaven in October 2011 and has committed significant further capital for its expansion.</p>	<p>£1m <i>in the year to March 2011</i></p>
<p>Royal Bank of Scotland and other former creditors of Four Seasons <i>See also entry for Terra Firma</i></p>	<p>Four Seasons Health Care Ltd (ultimate parent FSHC (Guernsey) Holdings Ltd) - Elderly care home sector - Mental health hospital sector - Learning disabilities / mental health care home sector</p> <p>Four Seasons Health Care, established in the early 1980s, operates in two broad areas: care homes for older people; and specialised care under the Huntercombe brand, in hospitals and care homes for adolescents and adults with mental health problems, brain injuries, learning disabilities and physical disabilities. The UK operating company, Four Seasons Healthcare Ltd, is ultimately owned by FSHC (Guernsey) Holdings Ltd, whose statutory accounts Laing & Buisson has been unable to access. The great majority of the company's residents and patients are publicly funded. In July 1999 Four Seasons merged with CrestaCare plc with the</p>	<p>£479m <i>in the year to December 2010</i></p> <p><i>Note: Ultimate group turnover was £504m in 2010.</i></p> <p><i>The addition of the Care Principles portfolio and part of the Southern Cross portfolio to Four Seasons during 2011 will have</i></p>

Appendix 1: Private Equity Healthcare Holdings

PRIVATE EQUITY OWNER	HEALTHCARE COMPANY	REVENUE FROM LATEST STATUTORY ACCOUNTS, £M
	<p>backing of private equity house, Alchemy Partners. In September 2002, Four Seasons completed the purchase of Omega Worldwide Inc (owner of Idun Healthcare Ltd) and Principal Healthcare Finance Ltd, the Jersey based care home landlord. The total deal value was \$500 million (£325 million).</p> <p>In July 2004, Four Seasons was acquired by Allianz Capital for a reported £775 million. In August 2006 Allianz sold Four Seasons to Delta Commercial Property LP, an investment fund of the Qatar Investment Authority (QIA), for £1.4 billion including assumed debt, representing a multiple of 14 times EBITDA. With the advent of the global credit crisis the new owners were unable to refinance the asset following termination of the short-term loans with which it had been acquired. As a result the QIA equity investment became worthless and lenders, including the Royal Bank of Scotland (RBS), lost substantial sums. At the end of September 2009 the Group's financial creditors agreed a consensual capital restructuring involving debt for equity swaps which reduced the company's debts by 50% to £780 million. RBS became the largest shareholder with a stake of just under 40 per cent after writing off £300 million of loans. A further crisis point was reached in September 2010 when a £600 million loan owed to special purpose vehicle Titan, was due to mature in the wake of the 2009 restructuring. In the event a deal was struck to extend the maturity of the loan to September 2012, giving more time to put in place a more stable capital structure. In July 2010 Four Seasons exchanged contracts to acquire the operating business of mental health hospital group Care Principles, effectively at no cost, subject to regulatory approval which was received in 2011. The property assets remained with former backer, Barclays Bank.</p> <p>Care Principles had first been backed by 3i in 2003 and was acquired in July 2007 by funds managed by Three Delta LLP (not a member of BVCA) for £270 million, representing 23 times historic EBITDA for the year ending April 2006. Following the onset of the global credit crisis the company's financial position worsened and in April 2009 the entire share capital of CP Equity Ltd (Care Principles' ultimate parent) was acquired by Barclays Bank plc in order to secure its control pending a consensual restructuring associated with the company's secured lending facilities.</p> <p>As part of the break-up of Southern Cross Healthcare in 2011, Four Seasons took over the operation of homes owned by sister company Principal Healthcare Finance as well as those homes owned by Loyd. The changes resulted in Four Seasons becoming the largest care home company in the UK.</p> <p>At the end of April 2012 Four Seasons Healthcare announced that private equity company Terra Firma had agreed to acquire the company for a consideration of up to £825 million, being 8.1 times EBITDA of £101.3 million in calendar 2011. The transaction, which is expected to complete in July 2012, puts the capital structure of the UK's largest care home provider on a stable long term footing.</p>	<p><i>substantially increased the company's revenues.</i></p> <p><i>The latest statutory accounts of Care Principles show revenue of £25.3m in the eight months to December 2010</i></p>
<p>Sovereign Capital Partners LLP</p> <p><i>BVCA Member</i></p>	<p>Christchurch Court Holdings Ltd - Learning disabilities / mental health care home sector</p> <p>Christchurch Court is a neurological rehabilitation provider which was acquired in 2010 by Sovereign Capital Partners. The company has since expanded by further acquisition.</p>	<p>£4.2m <i>in the year to April 2011</i></p>
	<p>City & County Healthcare Holdings Ltd - Domiciliary social care and supported living sector</p> <p>City & County is a provider of domiciliary care services which commenced operating mainly in the London area and has now expanded to other areas of the UK. Funding is predominantly from local authority social service departments, with the remainder mainly from private payers. The company trades under a number of brands including London Care. City & County was acquired by private equity group Sovereign Capital LLP in September 2009 in</p>	<p>£61m <i>(estimated) at end 2011</i></p>

Appendix 1: Private Equity Healthcare Holdings

PRIVATE EQUITY OWNER	HEALTHCARE COMPANY	REVENUE FROM LATEST STATUTORY ACCOUNTS, £M
	<p>a transaction which valued the company at £18 million, being 6.9 times historic EBITDA revealed in statutory accounts for the year to March 2009.</p>	
	<p>Community Homes of Intensive Care and Education Ltd (CHOICE) - Learning disabilities / mental health care home sector - Domiciliary social care and supported living sector</p> <p>CHOICE provides care homes for adults with learning difficulties and has also diversified into supported living services in order to enable the group to offer individuals with complex needs and learning disabilities the full pathway of care.</p> <p>Following a £20 million management buyout backed by Sovereign Capital in May 2002, CHOICE merged with its two subsidiary companies (Truecare Group and Orchard End Group) to form one single company in 2009. During its ownership, Sovereign Capital has financed several bolt-on acquisitions.</p>	<p>£14.2m <i>in the year to September 2010</i></p>
	<p>Eden Care and Support Group Ltd - Domiciliary social care and supported living sector</p> <p>Eden is a Nottinghamshire and north of England based supported living provider catering for adults with learning disabilities and very challenging needs. Nearly all revenue is publicly funded, by local authorities. Established in 1994, Sovereign Capital invested in the company in 2010 and has developed five new facilities since. Innovative services include purpose built mini-campuses for 6-8 people with learning disabilities who have been transferred from secure units. Unlike most other supported housing providers, Eden owns the freeholds of the accommodation as well as providing the supported living services.</p>	<p>£9.6m <i>in the year to June 2011</i></p>
	<p>Rehabworks (Holdings) Ltd - Occupational health sector</p> <p>Rehabworks is the UK's leading provider of injury management and rehabilitation services for employers, insurers and government, providing targeted and bespoke 'back to work' programmes to reduce the cost and impact of musculo-skeletal and mental ill health. The bulk of revenue comes from private sector organisations. The company, which looks after 350,000 employees, was founded in 1989 and was backed by Sovereign Capital Partners in 2010.</p>	<p>£3.9m <i>in the year to July 2010</i></p>
	<p>Select Living Options Ltd - Domiciliary social care and supported living sector</p> <p>Select Living Options is a provider of supported living services for people with learning disabilities or mental health needs. The company is 95% public funded. Sovereign Capital Partners invested in the company in 2007, since which time it has doubled the number of service users with four new facilities and two bolt-on acquisitions.</p>	<p>£3.6m <i>in the year to March 2011</i></p>
	<p>Trascare Group Ltd - Learning disabilities / mental health care home sector - Domiciliary social care and supported living sector</p> <p>Trascare was established in 1983 and operates care homes, homecare and supported living services for people with mental health needs, learning disabilities and brain injury in Wales and England, including clients with challenging needs. In April 2004 Sovereign Capital Ltd announced that it had completed a £26 million institutional buyout of Trascare, with part of the</p>	<p>£18.5m <i>in the year to March 2011</i></p>

Appendix 1: Private Equity Healthcare Holdings

PRIVATE EQUITY OWNER	HEALTHCARE COMPANY	REVENUE FROM LATEST STATUTORY ACCOUNTS, £M
	<p>funding being applied to finance its buy and build and roll-out strategy. Sovereign has financed five bolt-on acquisitions and the development of nineteen new services between 2004 and 2012.</p>	
<p>Teachers' Private Capital the private investment department of the Ontario Teachers' Pension Plan</p>	<p>Acorn Care 1 Ltd - Special education and children's services sector</p> <p>The company, trading as Acorn Care & Education, is a provider of care and education for children with emotional and behavioural difficulties, severe learning difficulties, challenging behaviour and complex needs. Services are provided through a network of special schools and fostering agencies under the Fostering Solutions brand.</p> <p>The company's customers are local authority children's departments which have an obligation to meet the care and education requirements of children with special needs. Phoenix Equity Partners acquired a majority interest in Acorn in March 2005. The company was subsequently sold in January 2010 for an undisclosed consideration (rumoured to be around £150 million, equivalent to approaching 10 times EBITDAR for the year ending August 2009) to Teachers' Private Capital, the private investment department of the Ontario Teachers' Pension Plan.</p> <p>The company's Fostering Solutions Ltd subsidiary acquired Pathway Care, believed to be the UK's fourth largest fostering group, in July 2011.</p>	<p>£82m <i>in the year to August 2011</i></p>
<p>Terra Firma</p> <p><i>BVCA Member</i></p> <p><i>See also entry for Royal Bank of Scotland</i></p>	<p>Four Seasons Health Care Ltd</p> <p>At the end of April 2012 Four Seasons Healthcare announced that private equity company Terra Firma had agreed to acquire the company for a consideration of up to £825 million, being 8.1 times EBITDA of £101.3 million in calendar 2011. The transaction, which is expected to complete in July 2012, puts the capital structure of the UK's largest care home provider on a stable long term footing.</p>	
<p>Vitruvian Partners LLP</p> <p><i>BVCA Member</i></p>	<p>Healthcare at Home Ltd - Community health and home healthcare sector</p> <p>Healthcare at Home, founded in 1994, provides healthcare services to patients in their own homes, including oncology, chemotherapy, blood transfusions and IV antibiotics. To ensure high quality patient care, these treatments are supported by specialist nursing and pharmacy, together with full logistical and customer support services. Healthcare at Home is primarily nurse led and operates from regional centres throughout the UK. All its services are ISO 9002 accredited. An agreement was reached with Bupa in May 2002 to provide chemotherapy to its members.</p> <p>Having been backed by venture capital company Apax Partners for several years, the company was sold in August 2007 to Hutton Collins & Company Ltd and Healthcare at Home management for a figure reported to be in excess of £200 million. At the time of acquisition, Healthcare at Home was said to cover every health authority in the UK. In February 2012, Vitruvian Partners acquired a majority interest in the company alongside Hutton Collins and other investors and a new £100 million debt facility was arranged with RMS and HSBC.</p> <p>The price paid by Vitruvian was not disclosed but press reports indicated that the deal valued Healthcare at Home at about £200 million, representing a 9x multiple on historic EBITDA of £21.7 million for the year ending October 2010.</p>	<p>£814m <i>in the year to October 2010</i></p>

Appendix 2: Further Reading from Laing & Buisson

As the country's leading provider of healthcare market intelligence, the Laing & Buisson annual publication agenda includes over ten of the most widely read market reports in the UK health sector, covering areas as diverse as elderly care, acute hospital services, childcare and dentistry. Meanwhile, the flagship *Laing's Healthcare Market Review* has carved itself a niche as the definitive annual commentary on independent healthcare in the UK.

The majority of the material is derived from Laing & Buisson's bespoke surveys and proprietary databases, and is therefore unavailable anywhere else. As a result it is widely quoted in official reports, company prospectuses and parliamentary questions and answers, as well as regularly being cited by the national media when commenting on UK healthcare services.

Titles referenced for *The Role of Private Equity in UK Health & Care Services* include:

Annual Reports

CARE OF ELDERLY PEOPLE
UK MARKET SURVEY 2011/12

MENTAL HEALTH & SPECIALIST CARE SERVICES
UK MARKET REPORT 2012

DOMICILIARY CARE
UK MARKET REPORT 2011

DENTISTRY
UK MARKET REPORT 2011

LAING'S HEALTHCARE MARKET REVIEW 2011-2012

PRIMARY CARE & OUT OF HOSPITAL SERVICES
UK MARKET REPORT 2011/12

Monthly business newsletters

Community Care Market *news*
Healthcare Market *news*

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