

# The Montreux Healthcare Fund

February 2017



## The Montreux Healthcare Fund

Advised by **Montreux Capital Management (UK)**, The **Montreux Healthcare Fund** is the majority shareholder in **The Regard Group**, one of the UK's largest **Specialist Care providers**

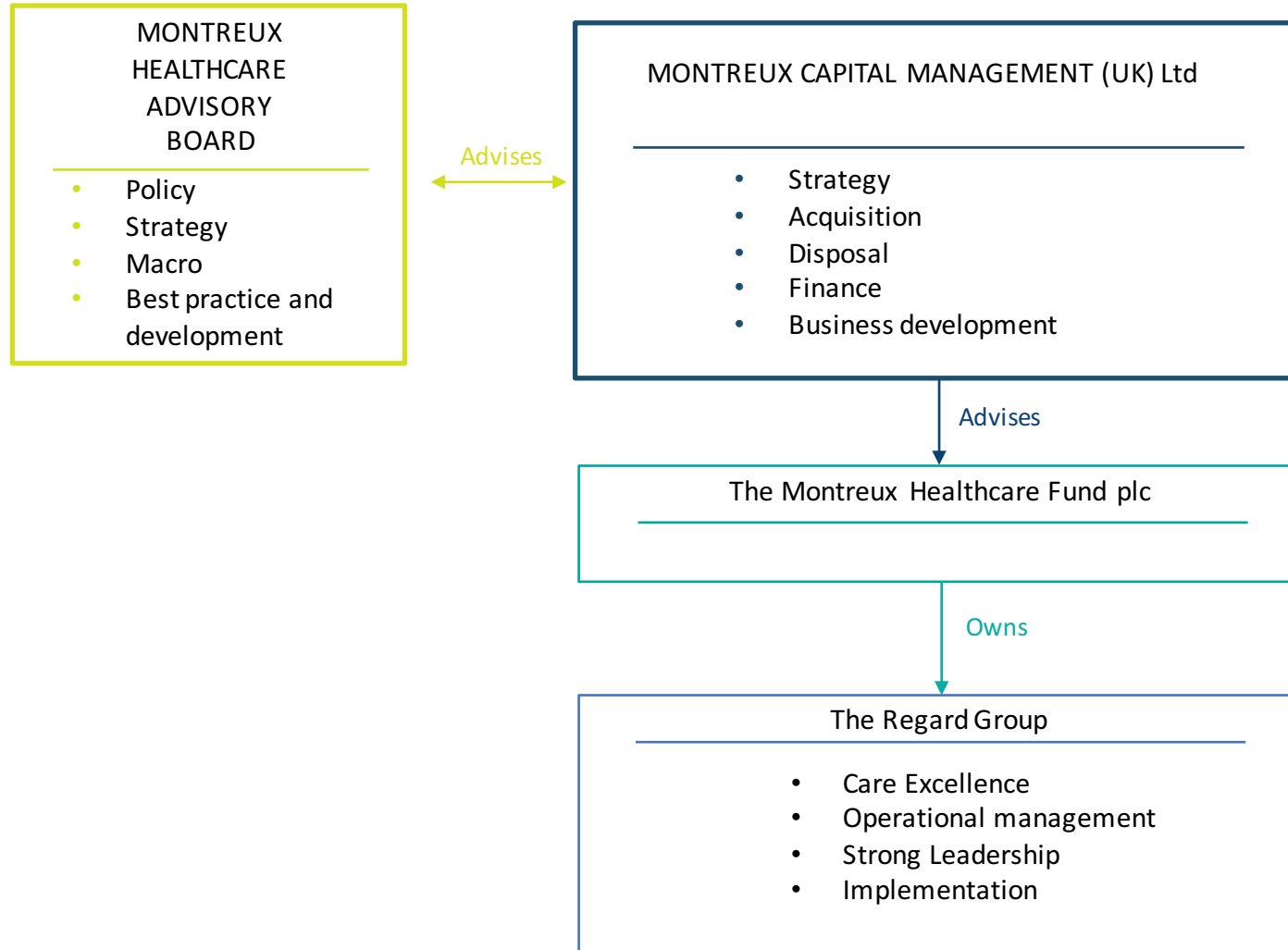
The fund seeks to **consolidate** the highly fragmented Specialist Care Market through an **acquisition approach**, which is supported by the extremely **attractive yield** businesses in this area can generate

The fund **targets 15-20%**<sup>1</sup> with little correlation to wider markets

Investment in the fund has a **Tangible Social Impact**

The **property asset** is also owned within the fund offering an asset backed element to the investment

# Structure





# Agenda

1. The Specialist Care Market
2. Our Investment Strategy
3. Our Operating Company: The Regard Group
4. Performance and Forecasts

# The Montreux Healthcare Fund

The Specialist Care Market

# What is Specialist Care?





## The Specialist Care Market – Demand Drivers

- Specialist Care in the UK is **Government Funded** through Local Authorities and The National Health Service
- **The Care Act 2014** enshrines the government's duty of care to vulnerable individuals into law
- There are **over 1 million people** in the UK with a learning disability
- Expected average **3.6% increase** annually until 2030
- Major Government initiative to discharge **c2,600 people** remaining in acute hospitals



## The Specialist Care Market – Demand Drivers

- 24,000 people considered to be ‘at risk’ of admission to acute hospitals
- Emphasis on the creation of ‘community based alternatives’ to receive discharged individuals and prevent those ‘at risk’ from entering the system
- Community based schemes such as those provided by [The Regard Group](#) are less costly to the Government than hospital. (average comparison p/p p/a: £112k v £175k), often providing [better care outcomes](#)
- [Advances in medicine](#) mean, people are being born with complex needs and now living into adulthood and old age
- People are being born with conditions that are increasing in prevalence due to modern ways of living. Binge drinking amongst young females is leading to an increase in babies with FASD resulting in new challenges as these young people grow into adulthood





## The Specialist Care Market – The Opportunity

- The Sector is **highly fragmented**; the **top providers own a small percentage** of the overall market
- This provides opportunities for **consolidation**; however, **high regulatory and financial barriers to entry** prevent many from participating in it
- The Montreux Healthcare Fund **owns c.150 care homes**, making it **one of the largest players in the sector**
- Our team has a **deep and evolving understanding** of the regulatory and financial requirements on businesses in the sector
- Our **size and understanding** mean that the Fund **is well placed** to take advantage of the favourable market conditions

## Established in a market for consolidation

### Learning Disabilities and Mental Health providers with more than 400 beds

Provider	Sector	Total homes	Total beds	Share of sector
Voyage	Private	280	2,160	3.2%
Priory Group	Private	167	1,730	2.5%
Mencap	Voluntary	134	1,180	1.7%
Montreux	Private	146	1,006	1.5%
Four Seasons Health Care	Private	35	973	1.4%
CareTech Community Services	Private	122	910	1.3%
Prime Life Ltd	Private	31	651	1.0%
Hft	Voluntary	47	643	0.9%
Care Management Group	Private	77	533	0.8%
Dimensions	Voluntary	93	529	0.8%
Caring Homes Group	Private	60	506	0.7%
Turning Point	Voluntary	47	445	0.7%
Tracscare Group Ltd	Private	73	435	0.6%
Allied Care Ltd	Private	40	434	0.6%
Minister Care Group	Private	37	411	0.6%
Community Integrated Care Group	Voluntary	84	401	0.6%
Other Providers		6,221	54,153	81.1%
<b>Total</b>		<b>7,694</b>	<b>67,100</b>	<b>100%</b>

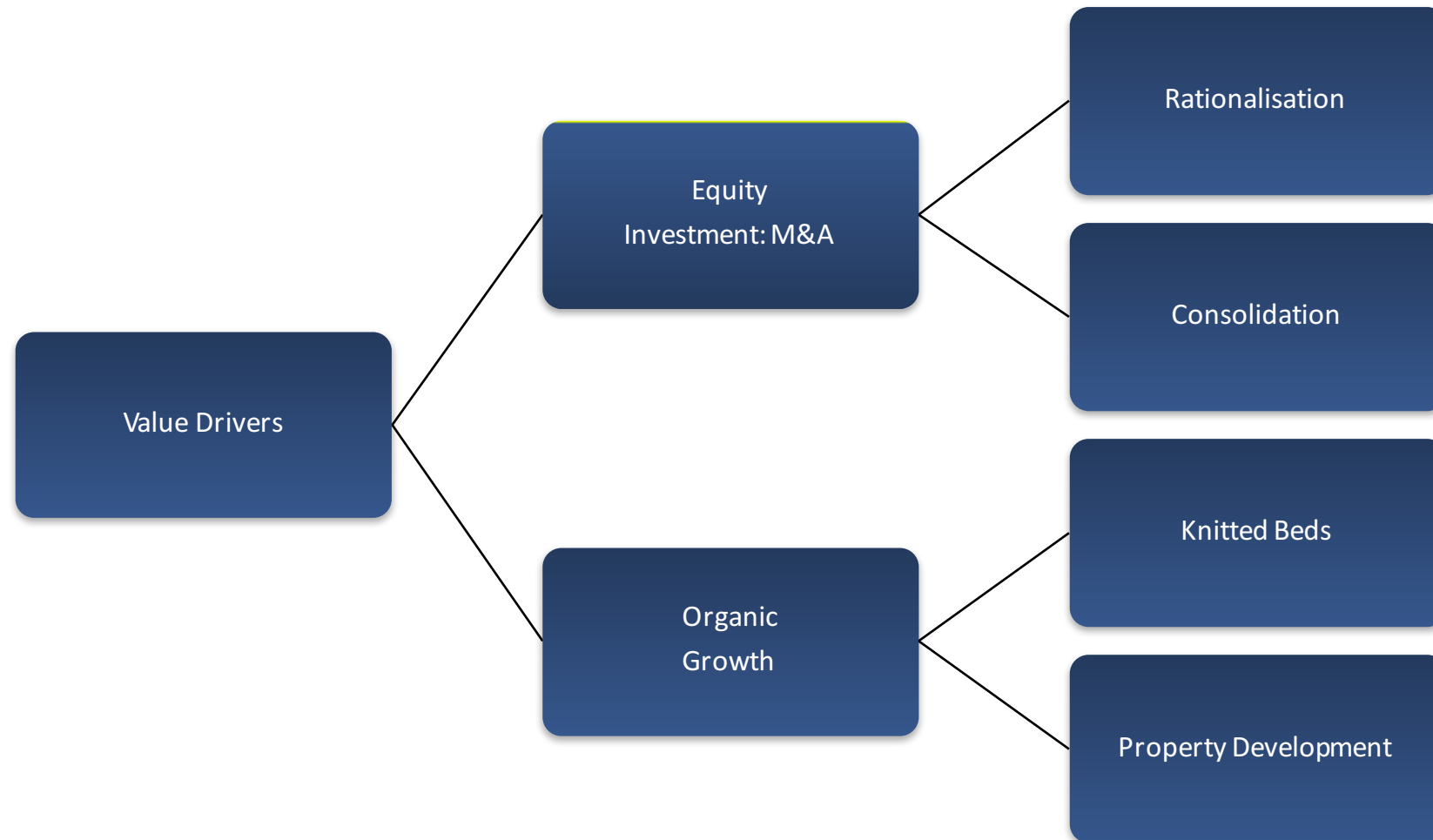
10 Source: Laing and Buisson 2013 with the exception of Montreux which is as at Sept 2014. As such, this may not be an accurate representation on the current market share. The Total and Other Providers are based on the Laing and Buisson 2013 figures but adjusted to take into account Montreux Sept 2014 numbers.

All named providers are operators of the care homes in their portfolio.

# The Montreux Healthcare Fund

## Our Investment Strategy

# Investment Strategy – Value Drivers





## Investment Strategy – Organic Growth

- Without equity investment into the fund, there will still be **significant growth** in the operating business through reinvestment of **recycled** cash flows
- **Knitted beds:** beds added to existing properties
- **Property Development:** purchase of properties which are then converted into care homes
- Refurbishment is the most **lucrative** means of expansion with beds costing c.80k each but it also the slowest means by which to generate EBITDA

## Investment Strategy – Consolidation

- Smaller businesses can be valued at as little as **5x EBITDA multiple**
- Once these businesses are acquired and bolted onto **The Regard platform**, they can be valued as part of a larger business in excess of **10x EBITDA**
- Recent transactions in the market have signalled **higher EBITDA multiples** for scaled businesses in the sector due to a lack of large scale businesses in the market

	Specialist Care
EBITDA Margin (90-95% occupancy)	30%
Annualised Cash Yield	14%+
EBITDA Multiple (Prime)	10x or more
EBITDA Multiple (Secondary)	5-8x

# Investment Strategy – Consolidation

**EveningStandard.** [News](#) [Football](#) [Going Out](#) [Lifestyle](#) [Showbiz](#) [Homes & Property](#) [Charity appeal](#)

Business

## Cambian seeks better health with £377 million sell-off to US

MICHAEL BOW | Monday 5 December 2016 | [0 comments](#)

- Deal reported at between **11.5-15x EBITDA** multiple
- **The Montreux Healthcare** Fund portfolio is conservatively valued
- Business is of **similar size**
- Demonstrates a **buoyant** specialist care market



## Investment Strategy – Rationalisation

- The Due Diligence process prior to purchasing a business inevitably **signals areas for improvement**
- **Process change** is spearheaded from the first moment
- **Evaluation, and potential integration** of managerial roles is carried out
- **Economies of Scale** are typically implemented throughout the business
- Scaling the business and adding proper processes allows for **improvements in care quality**

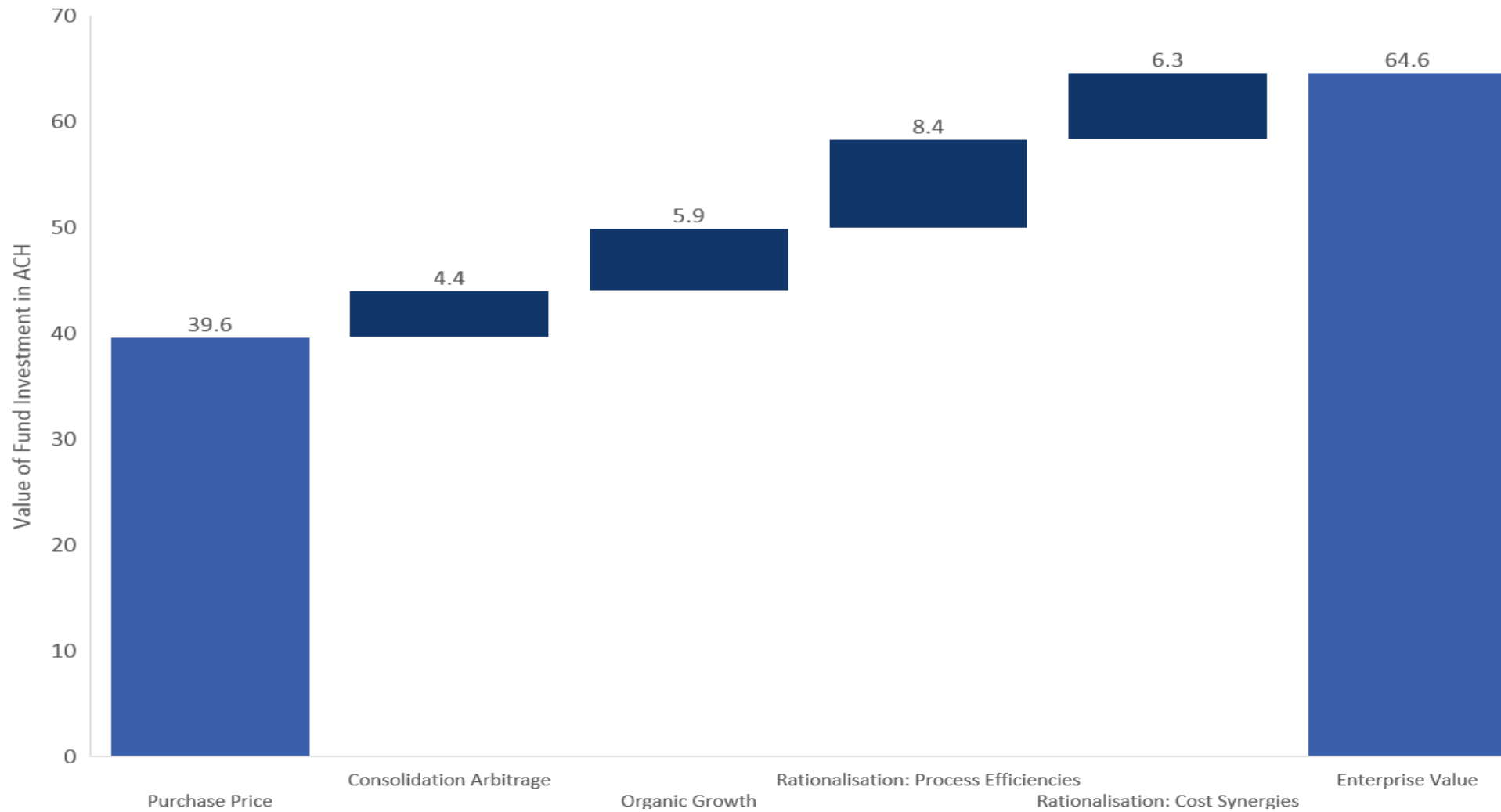




## Investment Strategy – Yield

- Following the **rationalisation**, businesses can be efficient and well managed
- Well run homes **yield** c.28% EBITDA
- This forms the **foundation** of the portfolios return

# Typical Acquisition – ACH Example





## Risk Factors

<b>Finding Staff</b>	Finding qualified and experienced staff is a priority as changes can be unsettling for those within our care. This is mitigated through investing in our employees and identifying clear career pathways. When acquiring business, we assess the strength of the existing team.
<b>Wage costs</b>	The single largest overhead, representing between 50% and 55% of gross revenues, wage cost inflation is a critical issue. The increases in the National Living Wage have an impact and need to be counteracted by increasing fees and capacity.
<b>Occupancy</b>	Occupancy levels are driven by supply and demand characteristics and by Care Quality. Generally, an undersupply of facilities relative to demand and the difficulties around rehousing those with profound disabilities means occupancy levels tend to remain high.
<b>Default Risk</b>	The average weekly fees are paid by approximately 46 local authorities from UK government funds so default risk is monitored but very low.
<b>Interest Rates</b>	The Portfolio has debt instruments which are subject to changes in cost as interest rates rise. More than 80% of the debt in the portfolio is hedged against such increases.
<b>Market valuations</b>	The Fund employs a conservative approach to valuations. The key determinants of asset valuation are gross profits, and the market multiplier. This multiple is based on transactional activity in the space.
<b>Exit</b>	The exit could be realised by a number of different avenues including a private transaction or a public offering. This will be defined by the opportunities available at the time.
<b>Brexit</b>	Until the UK's exit from the European Union is defined, Montreux Capital Management UK can only speculate on the impact of the decision. The NHS and Community Care Act 1990 is likely to remain in place regardless of how UK leaves the EU. The Fund's price is not intrinsically linked to sentiment toward UK Small/Mid Cap Equities, consequently the Fund's value has so far been uninfluenced by geopolitical events. It is Montreux's view that the assets the Fund is invested in will be largely unaffected by the UK's reestablishment of sovereignty.

# The Montreux Healthcare Fund

Our Operating Company:  
The Regard Group



## How we achieve our aims: The Regard Group

- The Regard Group is the operating company of which The Montreux Healthcare Fund owns the majority.
- The Regard Group is one of the Largest Specialist Care provider in the UK
- It owns c.150 specialist care facilities, caring for over 1000 individuals

### THE REGARD GROUP

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Sandi Foxall-Smith – CEO  
Carol Edmund – MD  
Mike Hawkins – CFO  
Chris Spanoudakis - Chair  
Years of experience: 100+  
Number of staff: 2,500



## The Regard Group

- Net **positive** cash flow, cash generative
- **Award winning** CEO, awarded 'Leader of the Year' by Investor in People
- Strong **organic growth**
- **Strong track record** of driving increasing EBITDA



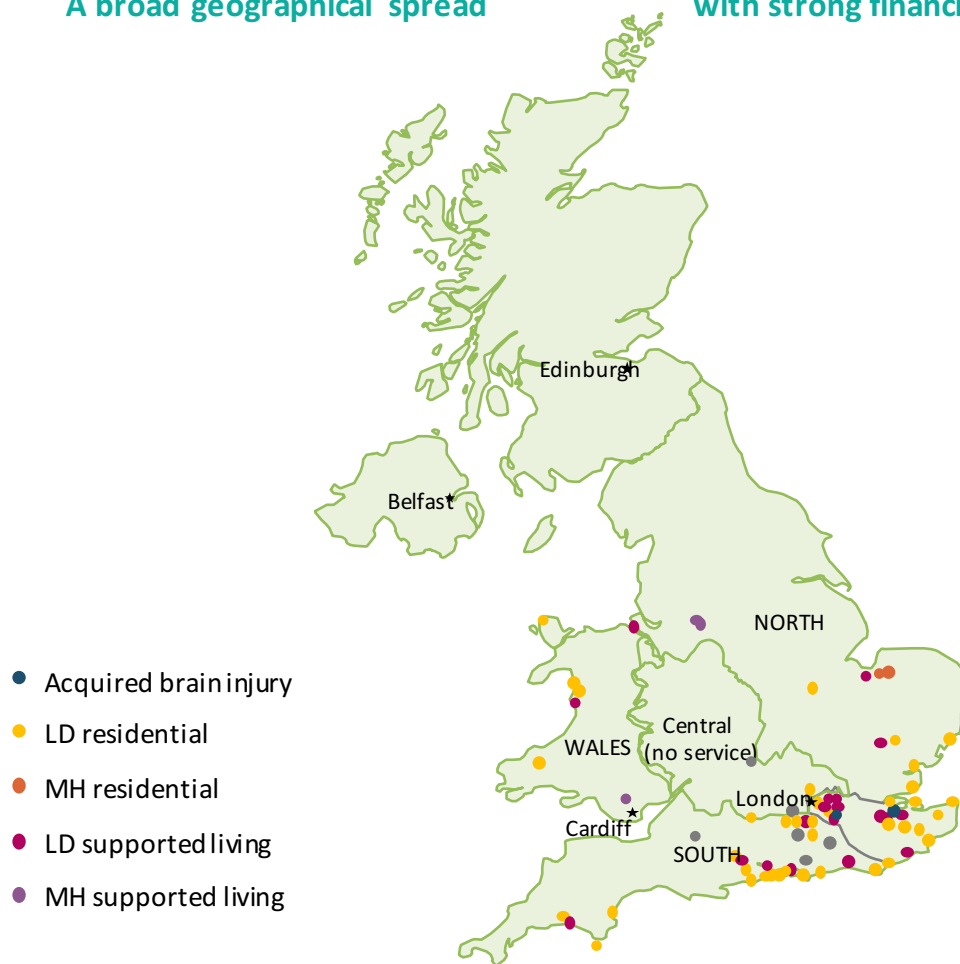
## The Regard Group – Care Quality

- 86% of our Care Homes are rated **good or outstanding** by the CQC, against a national average of 72%
- Track record of **transforming the lives** of those they support
- Care quality grading is key for **sustained engagement** of the local authority
- Montreux believe a focus on care quality ensures the **longevity** of the business and ultimately, means a **higher value** on exit

# The Regard Portfolio and Financials

A broad geographical spread

with strong financial performance



The Regard Portfolio and Blended Home Performance	
Number of Services	150
# of Beds	1,100
Home Staff Cost	57%
Home Admin Costs	5%
Head Office Cost	10%
Group EBIDTA Margin	28%



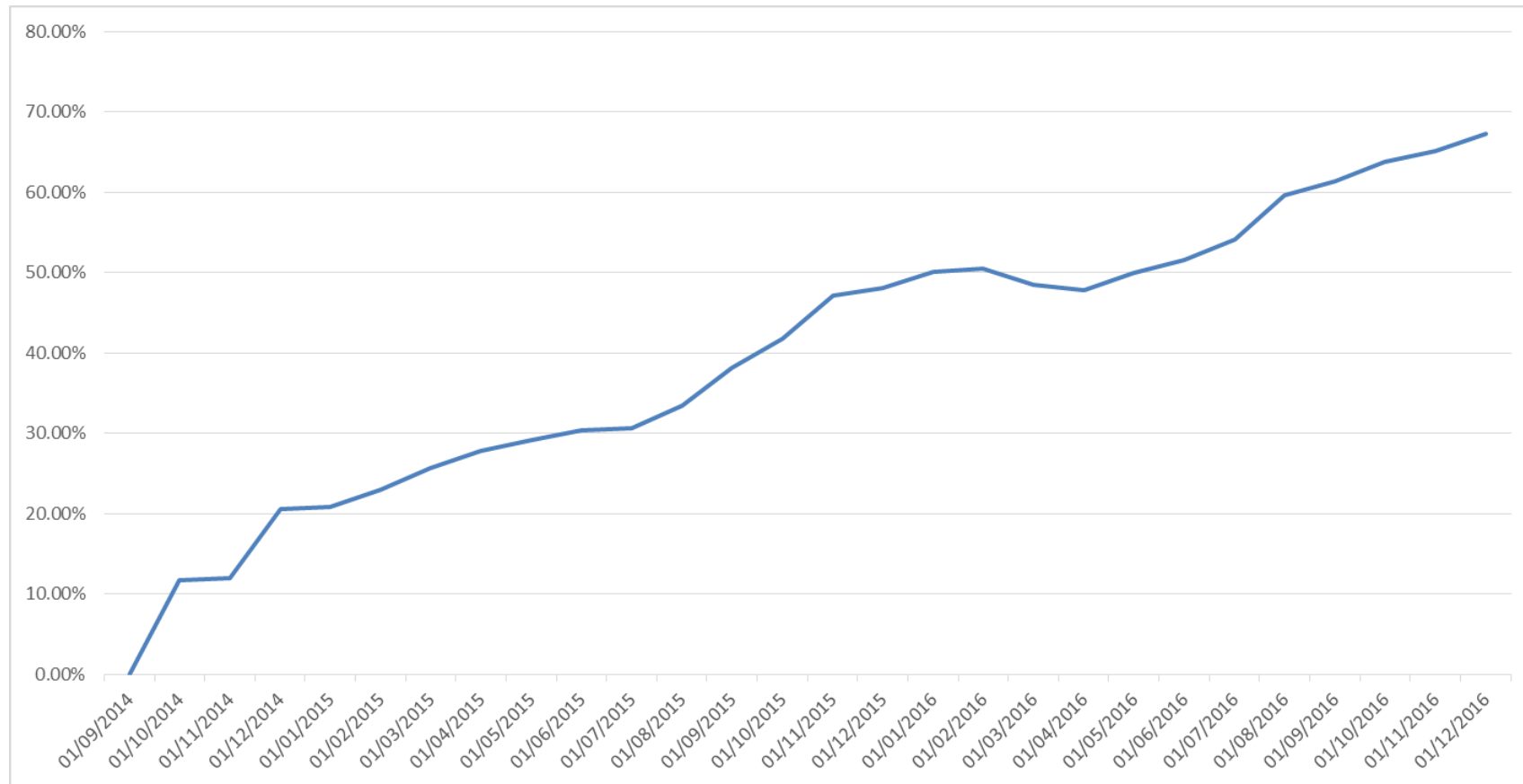
# The Montreux Healthcare Fund

Performance and Forecast



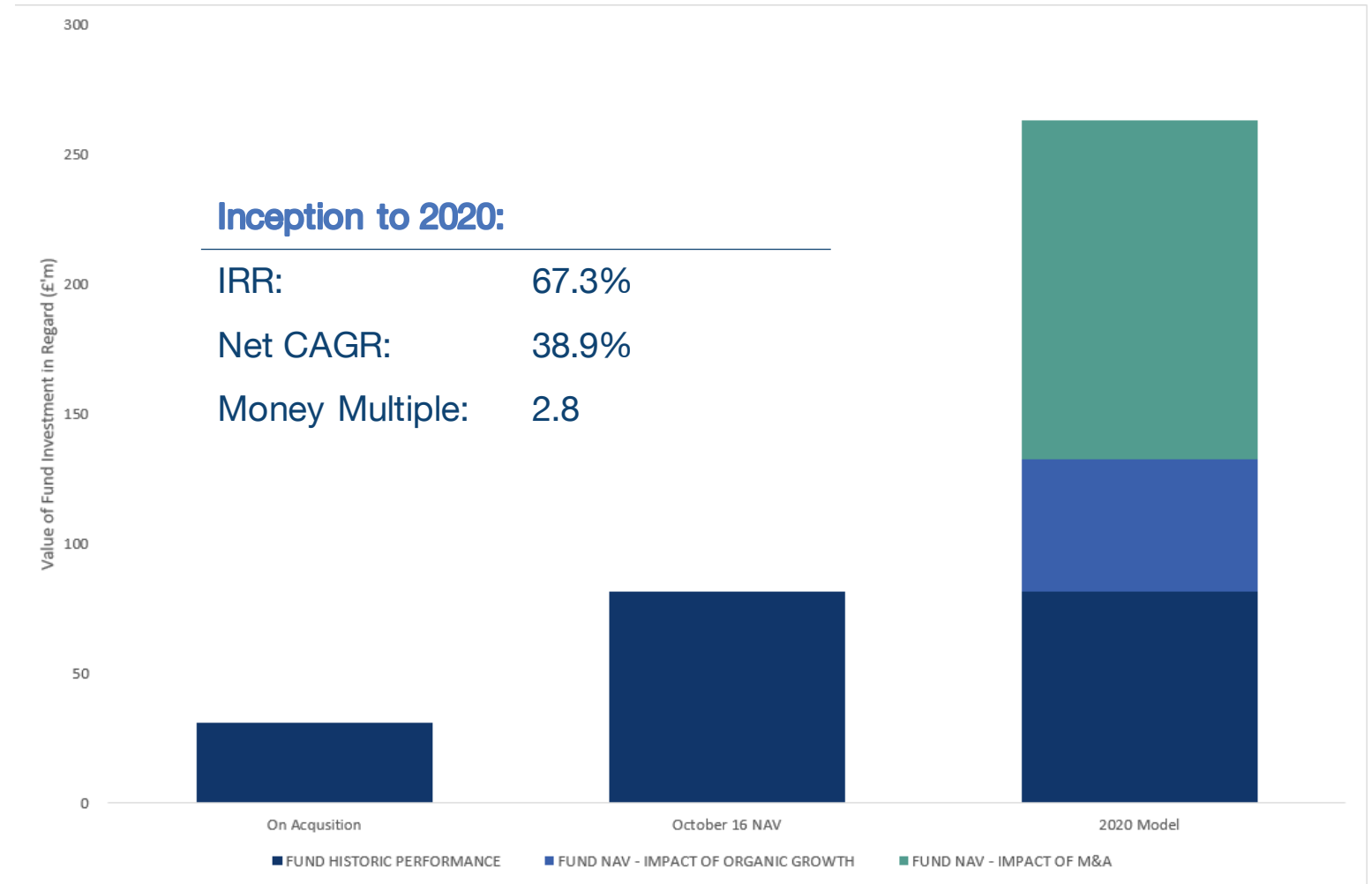
# Montreux Healthcare Fund Performance as of December 2016

CAGR of 22.86%



# Montreux Healthcare Fund Performance 2020 Outlook

- Organic growth will continue to **drive** EBITDA growth
- Equity investment will enable **acquisitions** and significant valuation uplift
- Model based on **£50m additional investment**





## Exit Opportunities

The exit strategy of the business is likely to be:

- Company listing/IPO
- Sale of business
- Merger with another large specialist care provider
- No exit at all...



## Fund Terms

<b>Domicile:</b>	Isle Of Man, Qualifying Investment Fund
<b>Dealing:</b>	Monthly
<b>Redemption notice period:</b>	Subject to Share Class
<b>Currency classes available:</b>	GBP / USD / EURO / CHF (fully hedged)
<b>Annual Management fee:</b>	1.5%
<b>Performance Fee:</b>	20% after a 0.83% monthly hurdle is achieved + HWM
<b>Manager:</b>	Apex Fund Services IOM
<b>Legal Advisers:</b>	Appleby IOM
<b>Custodian:</b>	Cayman National Bank IOM
<b>Auditors:</b>	KPMG IOM
<b>Investment Adviser:</b>	Montreux Capital Management (UK)



# Summary

Favourable long term demographic trends

Supply / demand imbalance

Growing private and public sector demand

High occupancy levels and Strong yields

## Benefits of the Asset Class

High barriers to entry

Valuations based on EBITDA

Low resident turnover

Consolidation opportunities

# Disclaimer

The Montreux Healthcare Fund PLC

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**MONTREUX**  
Healthcare



# The Montreux Healthcare Fund

## Appendix I: Case Study

## Case Study

- A top 20 Learning Disability Care Home operator with 25 homes in the South-East.
- High performing homes in need of proper Financial Management.
- Over a period of 6 months, the ineffective HO function was merged was an immediate saving of £1.6M pa.

### Outcome:

- An IRR of 51%, Cash yield of 14%, per bed value of £229,453 (a 51.6% increase), with no use of Capex to drive increased value.



ACH	(£'000')
Purchase Price	39,500
Cost Per bed (£000)	151.34
EBITDAM at Acq	6,888
EBITDAM Jan 2016	7,796
Improvement since Acq	908
EBITDA at Acq	4,488
EBITDA Jan 2016	6,461
Improvement since Acq	1,973
EBITDA per bed at Acq	17.20
EBITDA per bed Jan 16	26.59
Improvement since Acq	9.39
Valuation at 10x	64,610
Valuation at Acq	39,500
Improvement since Acq	25,110
	63%

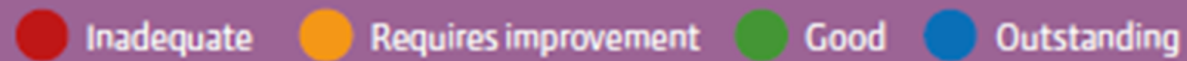
# The Montreux Healthcare Fund

## Appendix II: Governance

# The counter to stringent regulation is high quality Governance

2014 saw a new approach to regulation, giving an overall rating of:

- Is it **safe**?
- Is it **effective**?
- Is it **caring**?
- Is it **responsive**?
- Is it **well-led**?

 Inadequate Requires improvement Good Outstanding

## An inspector's view

"They are keeping on top of it, the management team know what is going on... so they know, they can tell you we have had a problem with staffing numbers we have had a lot of sickness and this is what we are doing about it... they are then making sure they are keeping on top of whatever improvements have been made to make sure they are being sustained."

The Care Quality Commission (CQC) regulates residential care homes in the UK.

Our key role is to ensure that services operate in a way that demonstrates to the CQC, Commissioners, and Customers they are **safe, effective, caring, responsive** and above all are **well-led**. Understanding how a care service works and being able to identify risk factors and take **corrective action safeguards** investment.