

LONG TERM CARE FOR THE ELDERLY IN FRANCE

EUROPEAN COMPARISON

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Executive Summary

1. The expected demand for long term care in France, should grow with an annual rate of 2.6% . Yet the expected growth can be nuanced.

- Ageing population is a general trend in Europe. The growth of the elderly population is linked to the ageing « baby-boomer » population and the growth of life expectancy. The very old population is soaring. In France the 80+ should be 3,1 millions in 2050.
- Demographics alone will not lead to a steady and linear growth of the market mid term and long term, since European population is ageing in better health, which leads to the likely fall of the prevalence rate of high dependence for a given age, evidenced from the 90'. The growth of the dependent elderly population will increase mainly because of the growth of the very old population, but it will then slow down because of the likely fall of the prevalence rate.

2. Offer is changing with the arrival of an increasing 85+ group age in the market, the scarcity and the ageing of family carers

- From 2003 to 2010 social and medical establishments for old age have been increasing in France and have been shifting from mid to long term retirement homes (EHPA) to “last stay” EHPAD for highly dependent patients.
- EHPAD is getting closer to a specialized hospital for highly dependent old age patients with dementia. Therefore, public and private hospitals and clinics are taking a significant part in the mutation of the sector. EHPAD are required by French government to adopt the same pricing scheme than hospitals : pay per act. (T2A)
- The French government willingness to promote homecare services can not cope with the needs yet. Financial efforts are to be made by government in 2012 to help local communities financing at home services. In the future, renewed retirement homes and At Home services should become an alternative to early entry in EHPAD, though. EHPAD are developing short term stay places in order for dementia patients living at home to be temporarily hosted. The major problem is that the number of family carers will increase less faster than the number of dependent people and that they are ageing themselves.
- This will lead the dependent elderly people either to pay for professional homecare services or to find solutions with a renewed EHPA offer. The number of rooms in EHPAD seems to be insufficient, anyway, to cover the future needs of the increasing 85+ group age, with a large prevalence of heavy dependence and dementia.

3. The French market of the dependence is still dominated by non-profit offers, but private players and Insurance companies and banks gain ground

- Compared to the other European countries, in France, the State and the associations still play a predominant role.
- In 2008 the HPST Law has introduced major reforms in the structure of the French healthcare system, creating Regional Care Agencies, ruling both healthcare and care sectors, under a reinforced governance of the French State.
- In 2011, a national debate on dependence financing has led to accelerating market structure changes.
- As it seems likely that French Seniors will have to subscribe to dependence policies in the future, French insurance companies and banks are reinforcing their leadership in the market. They are present as shareholders of major groups of EHPAD and real estate financing companies dedicated to care and health segment. They also finance places in EHPAD reserved to their clients
- From 2010, concentration among private groups operating EHPAD has accelerated. The Top 10 French groups (state excluded) manage more than 1500 beds. They now account for 12,2 % of the total offer of medicalized beds in France. Since 2005, the 5 private main actors have maintained a fairly stable market share. In 2009, they account for 47 796 beds against 35 837 in 2005.
- With the acquisition of Dolcea, DomusVi becomes the Top provider of beds in France (DVD), while the previous leader, Korian, takes the 3rd place, outperformed by Orpea. Medica and Korian should also merge in a near future. Majors and Mid size national players have been acquiring independent operators and are still looking for opportunities among the 700 remaining independent EHPAD of the French market. Besides EHPAD, mid size regional groups are positioning on a renewed EHPA segment and at home services.
- Private institutions steadily gain ground in the framework of a market which will go on being regulated and controlled by French State and national insurance companies and banks, jointly.

4. EHPAD operators have to deal with major issues such as increasing operational costs

- Operators have to deal with major issues: increasing operational costs, mainly because of the modernisation and standardisation of the institutions.
- Besides, they are required to open new dedicated units, such as PASA and UHR and short term stay for Alzheimer patients. This will lead to increasing the number of trained and qualified care professionals in the EHPAD
- Whereas revenues are likely to progress for Major and national mid size operators, profitability could be at risk for some of them.

5. M&A transactions in the European Care Home sector (by Epsilon Research)

- Although domestic deals represent 90%+ of the M&A market (in volume), the share of cross-border deals has more than tripled in 5 years, from 2.3% in 2006 to 8.8% in 2010. Continental consolidators have clearly started building pan-European presences through cross-border acquisitions - despite the financial crisis and long after the UK.
- Private Equity funds have taken an active role in the consolidation of the care home market. Private equity backed acquisitions (LBOs and build ups) represent 10% to 15% of the overall M&A market.
- Transaction multiples have been impacted by the financial crisis, with prices down 15%-20% on average.

The transaction multiple analysis in this section is based on the detailed analysis of 56 European Care Home M&A acquisitions, announced between 2007 and 2010. They are part of Epsilon Research EMAT database (Epsilon Multiple Analysis Tool™). Reports are written by a team of financial analysts, with a focus on: deal rationale and structure, target business lines and financials (restated), transaction multiples (calculation, comparison and analysis).

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