PRESS CUTTING

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The number of people in the developed world over 80 will jump from 37 million in 2000 to 113 million in 2050, writes Martin Essex

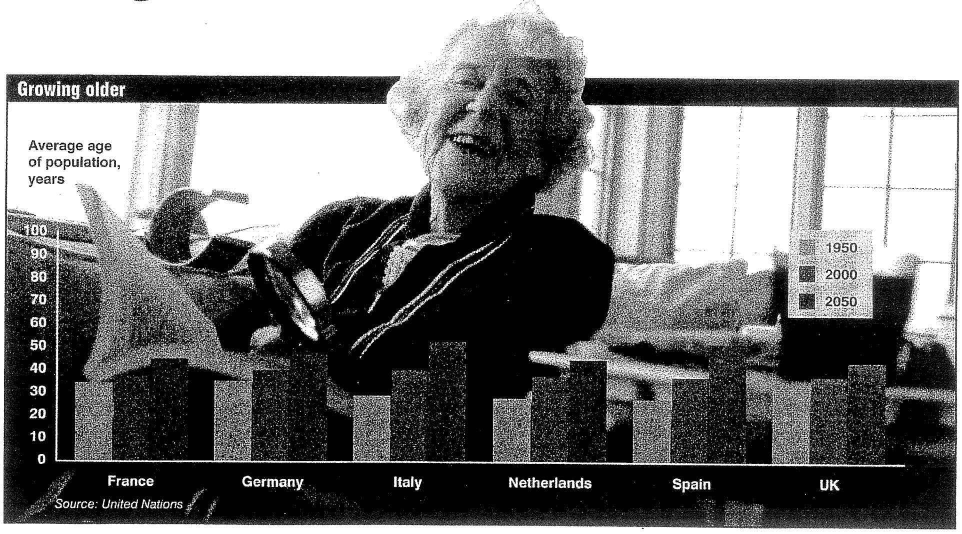
Golden age for healthcare investors

As Europe's population ages, financiers are becoming increasingly attracted by the opportunities available for investment in services for the elderly.

The figures are stark. United Nations data suggest that the average age of a European citizen will increase from 37.7 to 47.7 over the next 50 years. In 1950, just 8.2% of the European population was aged 65 or more. By 2000, that had increased to 14.7% and by 2050 it is likely to reach 27.9%.

In the developed world, the UN figures imply that the number of people over 80 will jump from 37 million in 2000 to 113 million in 2050. The UN notes that countries will have to cope with substantial ageing of their populations and that the process is expected to continue.

With this in mind, private equity firms have been buying companies offering services to the elderly. Last month, Charterhouse, the London-based buy-out firm, agreed to purchase Saga, the UK provider of products and services to the over 50s, for £1.35bn (€1.9bn). The deal followed a fierce battle with rival private equity firms and was preferred by Saga management to a flotation.



We have a sector where requirements for the quality of care are increasing

Robert Clarke, Electra Partners

At the same time, private equity firms have been buying nursing homes, attracted by the opportunity to consolidate the industry, enjoy steady cashflows and large property portfolios.

In July, Allianz Capital Partners beat off strong competition to buy Four Seasons Health Care for £775m from fellow private equity firm Alchemy. In September, New York-based Blackstone Group bought Southern Cross Healthcare from West Private Equity for £162m.

Last month, two more deals followed. Barchester Healthcare, backed by Irish financiers JP McManus, John Magnier and Dermot Desmond, bought Westminster Health Care for £525m from 3i. Then, brothers Mahesh and Surendra Patel sold their company Highclear for more than £60m to rival Ashbourne Healthcare. The buyer is backed by another private equity firm, Electra Partners Europe.

With so many deals taking place, speculation has increased that one or more of the investors will soon take their companies public. The largest firm in the UK nursing homes business, Bupa, is a provident association and the next few – Four Seasons, Barchester and Ashbourne – are in the hands of private equity firms or private investors.

However, some observers have their doubts. In particular, there is concern that earnings could be hit by an increased regulatory burden as governments ensure profits are not made at the expense of the vulnerable. Jamie Stewart, head of institutional marketing and research at Eden Group, a financial services firm, calls it one of the biggest paradoxes in the investment landscape.

On the one hand, demographics, the opportunity to provide services for growing sectors of the community, such as the elderly, government efforts to privatise such services and subsidies from public and charitable sources – let alone attractive assets and infrastructure – make them compelling investments.

On the other, there is a risk that governments, as well as clients, care campaigners and society at large, will demand ever-increasing and expensive standards of care. "There's an open-ended requirement for companies to spend, invest and reinvest," said Stewart.

"You have the paradoxical situation where the financial attractions are offset by these socio-economic factors that will continue to militate against shareholders' interests."

This pressure to improve the service offered was highlighted in two recent programmes on BBC Radio 4. Ted Marcer, 87, spent a week under cover in an old people's home in Nottingham, posing as a resident. He kept an audio diary that was broadcast. Then, in *A Better Place to End My Days*, he made another programme in Germany looking at different approaches to the issue.

So far, only in the UK and, to a lesser extent, France, has the private sector become involved in nursing homes.

However, observers see the pressure to improve standards as positive for corporate investors and as an opportunity, not a threat. Robert Clarke, director at Electra Partners Europe, said: "We have a sector where the requirements for the quality of care are increasing and that makes it more suitable for large corporate investors."

As the standard of care required rises, individuals are unlikely to be able to offer the service needed – leaving the industry open to larger investors. Increased regulation could therefore be positive for corporate investors with access to capital as it creates barriers to entry. It is also likely to increase the need for large, purpose-built, nursing homes to replace the private homes that can no longer comply with the rules.

Either way, the need for investment in services for the elderly looks set to explode. For example, LCS International Consulting estimates the number of people requiring intensive care in institutional settings in the UK will rise by more than 70% between the end of 2005 and 2020.

Paul Saper, LCS healthcare analyst, expects a number of large private equity firms to use nursing homes as a springboard into the wider healthcare market. "Governments have to entice women back into work and, when they do, who's going to look after the elderly?" he asked.

This implies further consolidation as the best operators buy up the worst. "If you don't give good quality of care, you don't get residents because local authorities won't put people in your homes," said Clarke. "And about two thirds of people in care homes in the UK are paid for by local authorities."

In France, Bridgepoint Capital paid €330m ($424m) a year ago to buy Médica France, another nursing home group for the elderly, but elsewhere in Europe there has been little private equity investment. However, this is likely to change as ageing populations force governments to bring in private capital throughout the continent.

"The demographic issue is the same in all European countries," said Clarke.