

# Dataharvest

## The European Investigative Journalism Conference



FOR-PROFIT ELDER CARE

### Grey gold — The billion Euro business of elder care



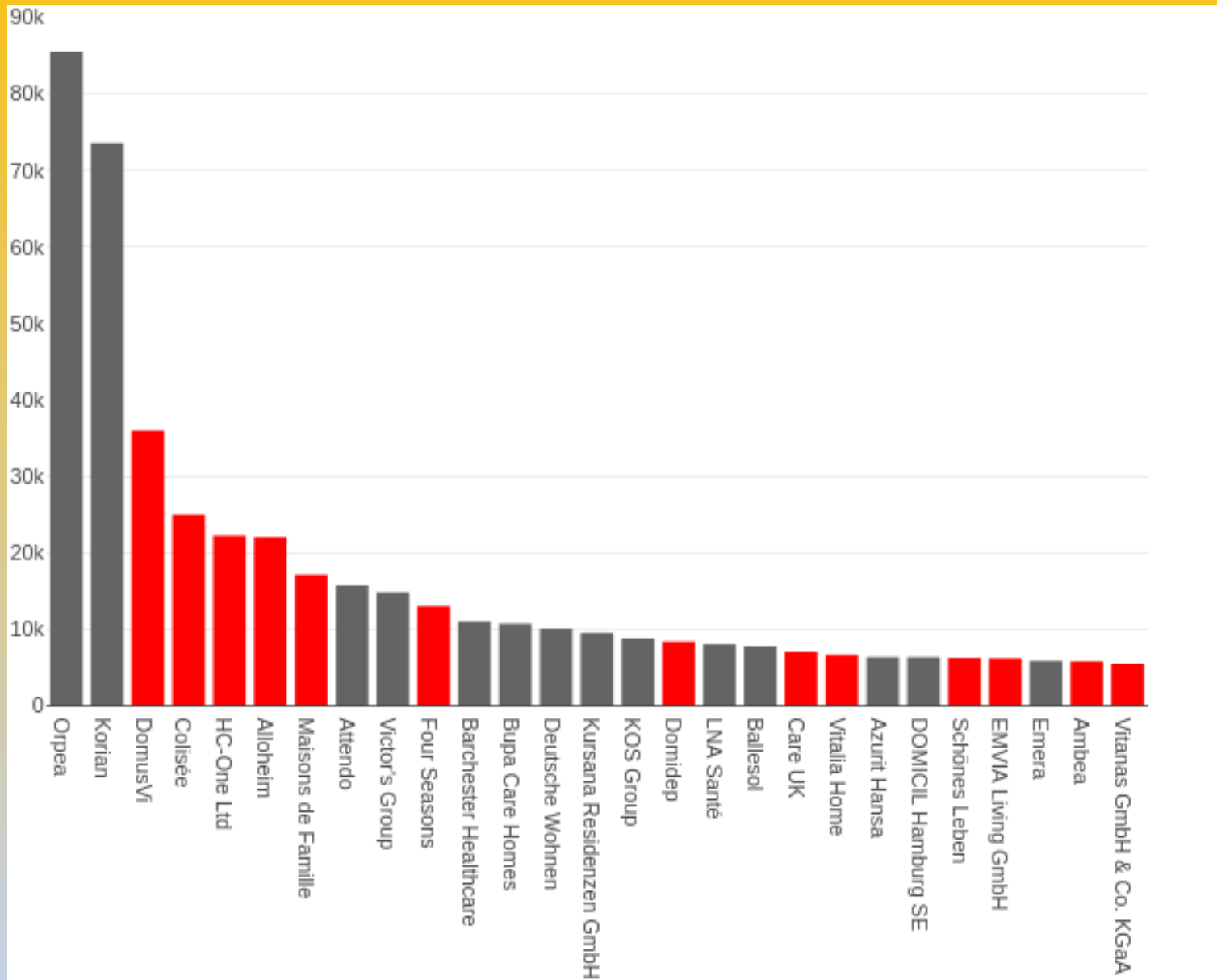
# Care Homes in Europe

- around 3.5 million residents living in long-term care homes in the European Economic Area (EEA) + UK (ECDS)
- the sector is structurally underfunded and suffers from „inadequate staffing levels, poor quality of work and lack of qualifications ...at the expense of quality of care and safety” (OECD 2019)
- Almost half of Covid-related death during the first two waves in 2020 in care homes for the elderly (LTCPN)
- But: Private companies operate a fast increasing share – for profit.
- Lead questions: How come? How does this fit together?

# Private Companies in the Care Business

- The leading 28 operators are all privately owned
- They manage 5388 facilities with places for 455559 residents
- Market share overall = 13%, but much more in core countries:
- Spain 81 %
- UK 76 %
- Germany 43 %
- France 24 %
- Belgium (Flanders) 21 %

# Largest care home companies in Europe



# Business Model in the Care Sector – the stock exchange strategy

- Guaranteed cashflow - the state always pays: Public expenses 2019: ~ € 220 billion/a + € 65 billion private insurance and payments (OECD)
- Guaranteed growth: cost of long-term care 1.7% of GDP at present, is estimated to increase to 3.9% of GDP in 2070 (EU Commission)
  - Guaranteed increase of company value
- Orpea capitalisation at the Paris stock exchange:
  - 2015: € 2,7 billion
  - 2020: € 9,3 billion

# Business Models in the Care Sector – the Private Equity strategy

- Guaranteed cashflow allows purchase of care home chains fully funded by loans
- The company is made to pay for it's own sale
- „Sale an lease back” of real estate and outsourcing of services enables additional hidden profit extraction
- Beneficial owners registered offshore, realized profits come tax free
- Example DomusVi, 3rd largest operator in Europe:
  - bought by PAI Partners in 2014 for € 639 million
  - sold to Intermediate Capital Group (Jersey) in 2017 for € 2,4 billion
- 30 PE companies active in the market
  - details at [www.investigate-europe.eu](http://www.investigate-europe.eu)

# „Financial Engineering” (1)

- Purchase price 100 – funded with 80 debt and 20 equity
  - The cash flows are sufficient to repay part of the loans over 5 years. (Basic condition: Reliable revenues over long periods)
  - Sales price 100
  - Debt after 5 years: 60, Value of equity after 5 years: 40 (!)
- **The stake was doubled, profit 20%/a**

# „Financial Engineering” (2)

“Buy and build”

- 10 purchases of companies with a profit of 10 each, Purchase price multiplier of EBITDA 10, i.e. purchase price per company  $10 \times 10 = 100$
- So for 10 companies it costs  $10 \times 10 \times 10 = 1.000$ , funded with 800 debt 200 equity (own money)
- Sale after 5 years (Hypothesis: nothing has changed operationally.)
- Large company  $\longrightarrow$  Higher multiple of EBITDA, let's say 12
- company makes still  $10 \times 10 = 100$  profit, but the sales price rises to  $12 \times 100 = 1,200$
- Debt is still 800, but value of equity is 400  $\rightarrow$  **Profit 20%/a**





## The Market Leader...

- spends only 55% of its revenues for salaries (70% are normal among non-profit operators)
- pursues an aggressive strategy of union-busting
- denies the employees their rights to have a European works council

# The big investor ...



bought  
for € 1,1 billion  
from Carlyle



- has burdened the German care home chain Alloheim with more than € 1,3 billion debt
- charges 9,1% interest for the loans given by it's holding company based in Luxembourg
- Acts on behalf of clients hidden behind fund companies registered in Jersey
- is responsible for 10 scandals in understaffed care homes across Germany since 2016

# Consequences

- Big private operators charge more from the residents and employ less staff
- Billions of Euros are drained away from an anyway underfunded public task, which could be used to hire more staff and improve care quality (UK study: ~ 10% of overall revenue)
- Residents receive poorer care
- Sickness among care givers and vacancies create permanent emergency
- Example Belgium: Private owners
  - charge 10 % more than public ones
  - employ about 10- 15 % less nurses per bed
  - grant their staff 20% less vacation
  - 12 of 13 care homes put under special supervision 2020 due to complaints about mistreatment of residents are owned by private for profit chains

# Serious allegations (1)

"I have the feeling that I'm not treating people with dignity, but only on a piecework basis. Time and again, there is "a huge hole in staffing, then we have to work several shifts that are disastrously stressful — psychologically and physically. That makes some people sick, and that's the vicious circle, because then, even more colleagues are missing. Sometimes the residents get the wrong medication, sometimes their wounds are not treated or they drink too little because they are not talked to, he reports. All this for very mundane reasons: Korian is trying to reduce staff costs in order to increase profits".

*Aljoscha Krause*, nurse at the Haus an der Ilmenau, an elder care facility in Lüneburg, Germany, owned by the Korian group.

# Serious allegations (2)

- „The residents are treated like work pieces in a factory, everyone is in a hurry. Many quit because they can't stand it." *Michaëlle Rigodon, Nursing assistant at Orpea's "Anatole France" nursing home in Auvergne, France.*
- "When they arrived here, they immediately tried to push down the wages. For the night shifts they now save 40 cents per hour worked. That adds up to makes almost € 2 two million for the company's 32 homes across in Galicia." *Sonia Jalda, Former nurse at the municipal care home in Vigo, Spain, which was bought by DomusVi.*



# Norway stops privatisation of social care

„Companies are good for society, but they are dangerous when they run care services. At the end of the day, their main purpose is to make profit for their owners, not to provide care.” *Robert Steen*, deputy mayor of Oslo.