

The Montreux Healthcare Fund

September 2017



The Montreux Healthcare Fund

Advised by **Montreux Capital Management (UK)**, The **Montreux Healthcare Fund** is the majority shareholder in 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 **attractive yield** businesses in this area can generate

The fund **targets 12-15%¹** 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



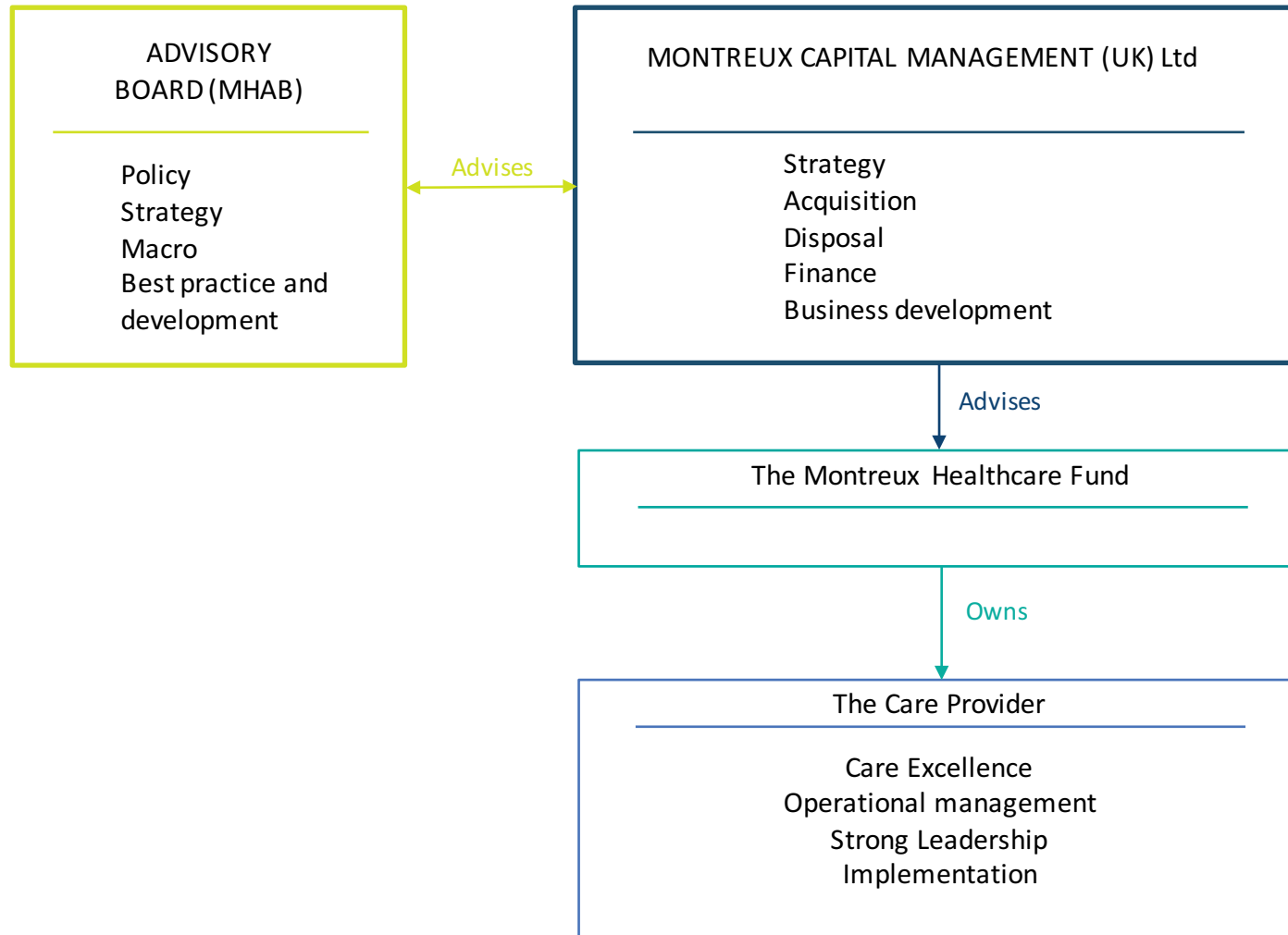
Socially Responsible Investing

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UKSIF

UK Sustainable Investment
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Structure





Agenda

1. The Specialist Care Market
2. Our Investment Strategy
3. The Fund's Operating Company
4. Performance and Forecasts

The Montreux Healthcare Fund

The Specialist Care Market

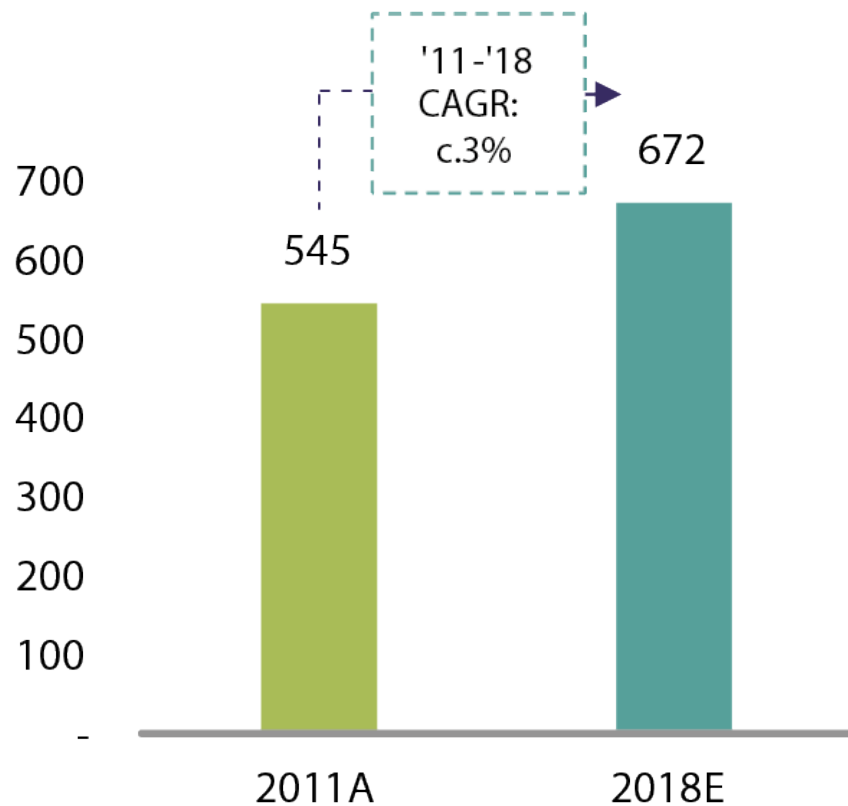
What is Specialist Care?



The Specialist Care Market – Demand Drivers

Growing prevalence

'000's of adults with autism in UK

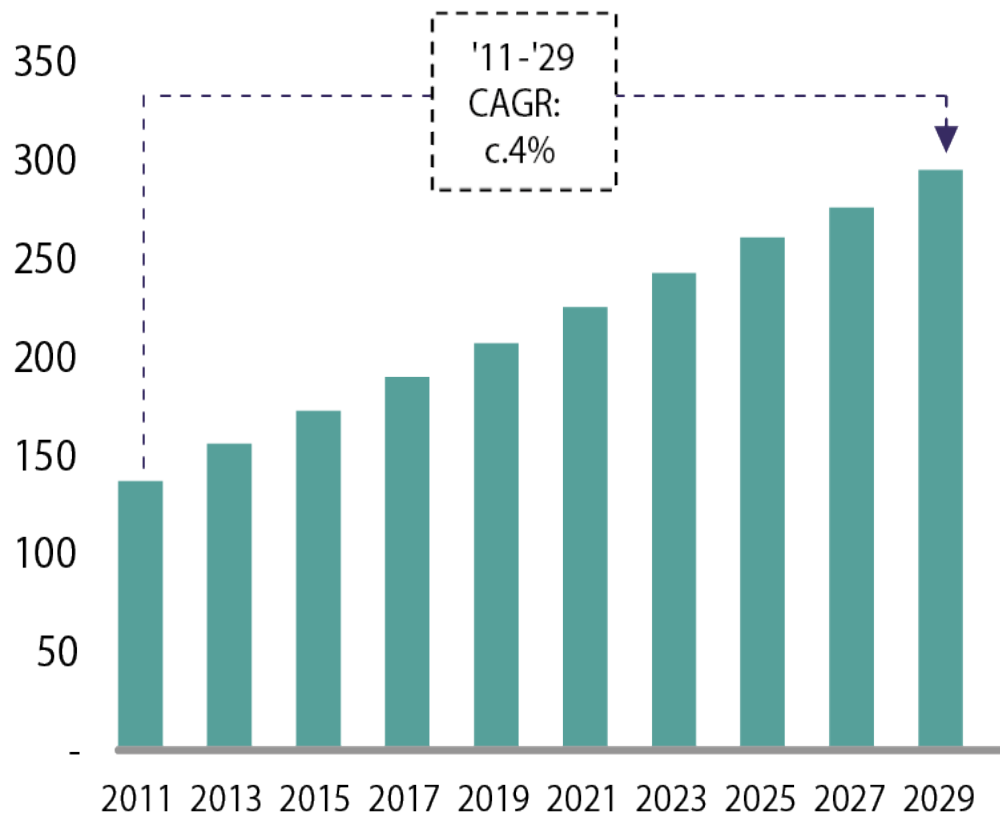


- Specialist Care in the UK is 100% **Government Funded** through Local Authorities and The NHS
- **The Care Act 2014** defines local government's duty of care to vulnerable individuals
- There are **over 1 million people** in the UK with a learning disability
- Expected average **3.6% increase** annually until 2030
- Major Government initiative to discharge **c2,600 people** remaining in acute hospitals

The Specialist Care Market – Demand Drivers

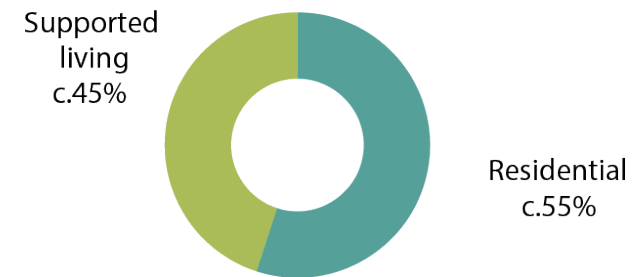
Forecast market growth

Adults with LD using social care services ('000)



By # of units

Services split

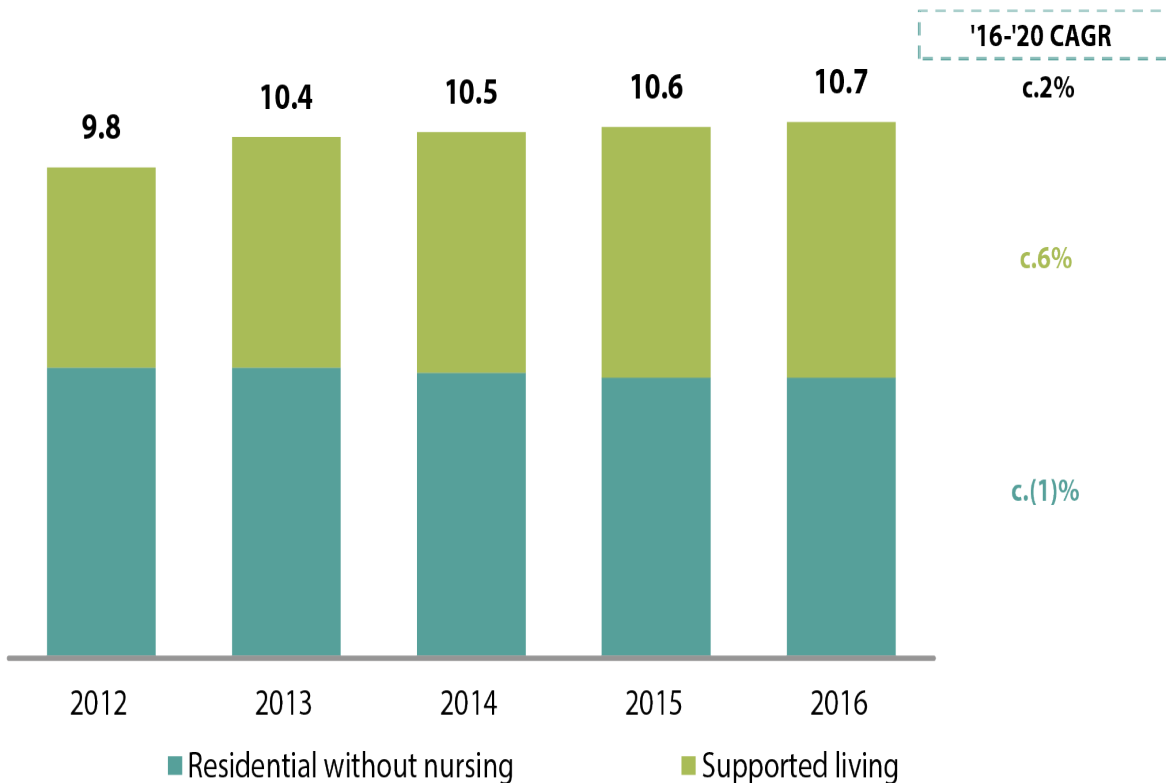


- The [Montreux Healthcare Fund](#) owns both residential and supported living services to keep abreast of an evolving market

The Specialist Care Market – Growing Supported Living Provision

Rising supply of CQC registered SL units ¹

of CQC registered units for LD / ASD service (000s)



Sources National Autistic Society, NHS report on 'Estimating the Prevalence of Autism Spectrum Conditions in Adults 2011', Public Health England report on 'People with Learning Disabilities in England 2013'

Notes

1. CQC bed registration of care home beds overestimates the total bed number of residential beds for service users with LD and / or autism

- 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**



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 barriers to entry** in a **heavily regulated environment** prevent many from participating in it.
- The Montreux Healthcare Fund **owns around 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

The Specialist Care Market

Learning Disabilities and Mental Health providers with more than 400 beds

Provider	Sector	Total Known Beds
Voyage Care	Private	2,103
Priory Group	Private	1,976
Montreux	Private	1,096
CareTech Community Services	Private	965
Four Seasons Health Care	Private	939
Mencap	Voluntary	699
Prime Life Ltd	Private	660
Lifeways Group	Private	579
Cambian Group plc	Private	560
Caring Homes	Private	514
Choice Care Group	Private	465
Trascare Group Ltd	Private	460
Care Management Group	Voluntary	453
Hft	Voluntary	453
Potens	Private	425
Allied Care Ltd	Private	416
Remaining beds from smaller care operators		c54,000

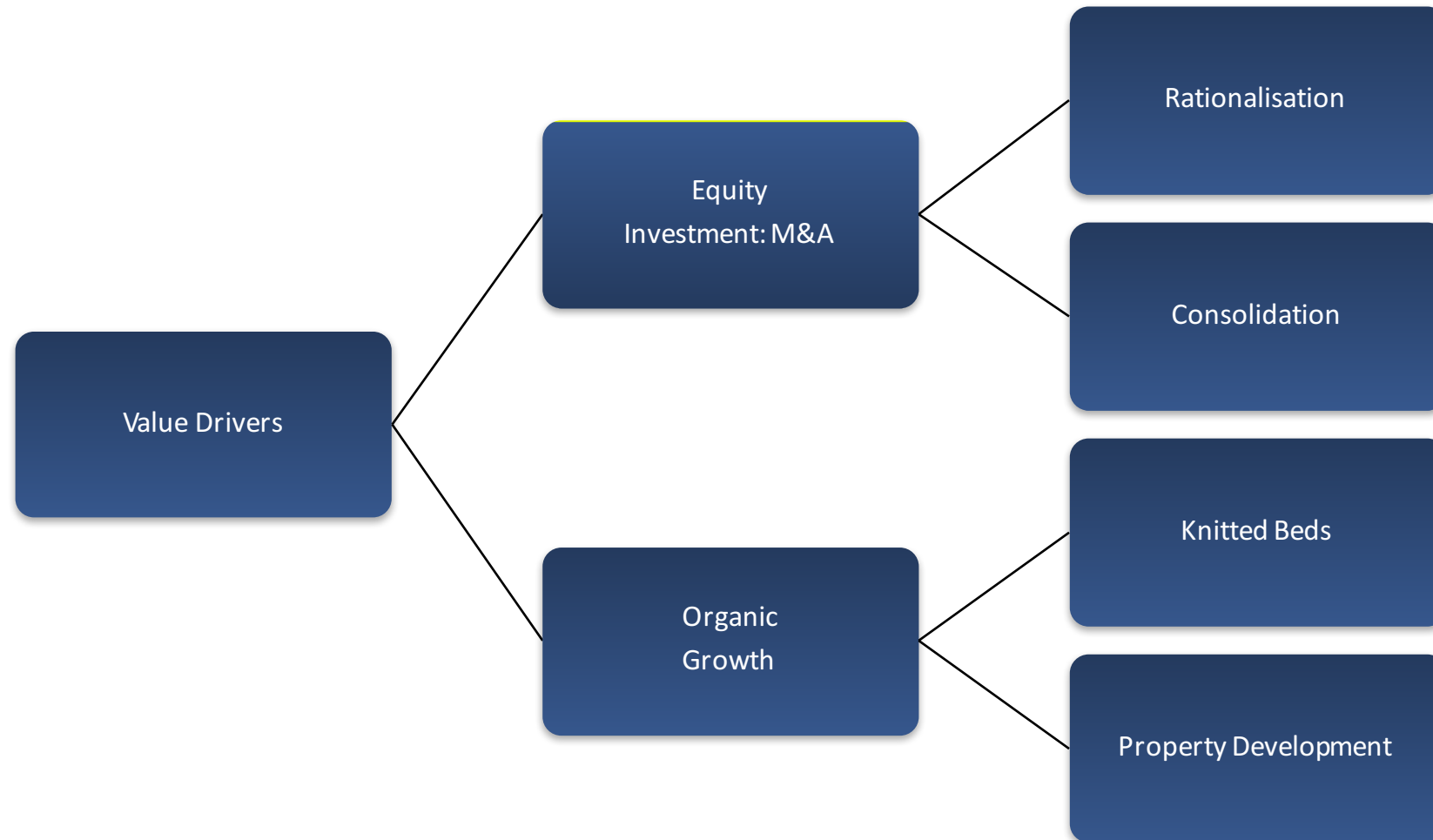
12 Source: Knight Frank industry data, 2017. Data is derived from the best available information and does not include Supported Living facilities for providers who have not provided this information.

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

The Montreux Healthcare Fund

Our Investment Strategy

Investment Strategy – Value Drivers



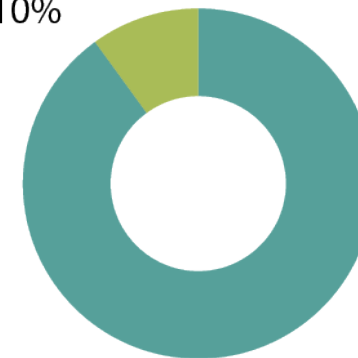
Investment Strategy – Organic Growth

- Without equity investment into the fund, there will still be **significant growth** in the operating business through reinvestment of **existing** cash flows
- **Knitted beds:** beds added to existing properties increasing value
- **Property Development:** purchase of properties which are then converted into care facilities
- Most **lucrative** means of expansion, beds cost c.80k
- Typically much **slower** than acquisition

By # of units

Build type

Purpose
built
c.10%



Conversions
c.90%



Investment Strategy – Consolidation

- Smaller businesses can be valued at as little as **7.5x EBITDA multiple**
- Once these businesses are acquired and bolted onto **The Regard platform**, their valuation as part of the larger business can be in excess of **10x EBITDA**
- Recent transactions in the market have signalled **higher EBITDA multiples** for scaled businesses in the sector

	Specialist Care
EBITDA Margin (90-95% occupancy)	28%
EBITDA Multiple (Prime)	10x or more
EBITDA Multiple (Secondary)	6.5-7.5x

Investment Strategy – Consolidation

- Prime example of a classic buy and build **multiple expansion**
- Underpins the **arbitrage** that can be achieved
- Considerable evidence to suggest multiples have **climbed** yet further this year
- Demonstrates the value that is placed on **quality** national providers

Sale of Priory Healthcare Group to Acadia Healthcare



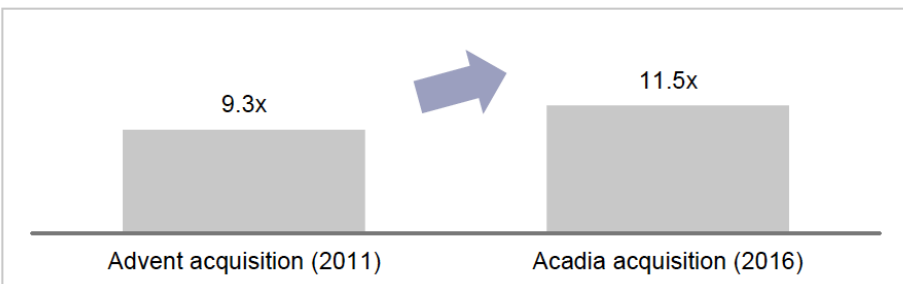
Overview

- Priory is the UK's leading independent provider of mental health and specialist care services
- Acquired Craegmoor Group in 2011, enabling Priory to consolidate its existing acute mental health services and specialist education service divisions
- Increased from 61 facilities in 2011 (pre-Craegmoor consolidation) to 322 units as at June 2015

Strategic appeal for bidders

- Favourable industry dynamics in the UK market - opportunities for private sector care providers to expand as publicly funded care capacity is squeezed
- Market leading position in services which are signalling longer term movements for independent sector support

Multiple expansion



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 was of **similar size**
- Demonstrates a **buoyant** specialist care market



Investment Strategy – Rationalisation

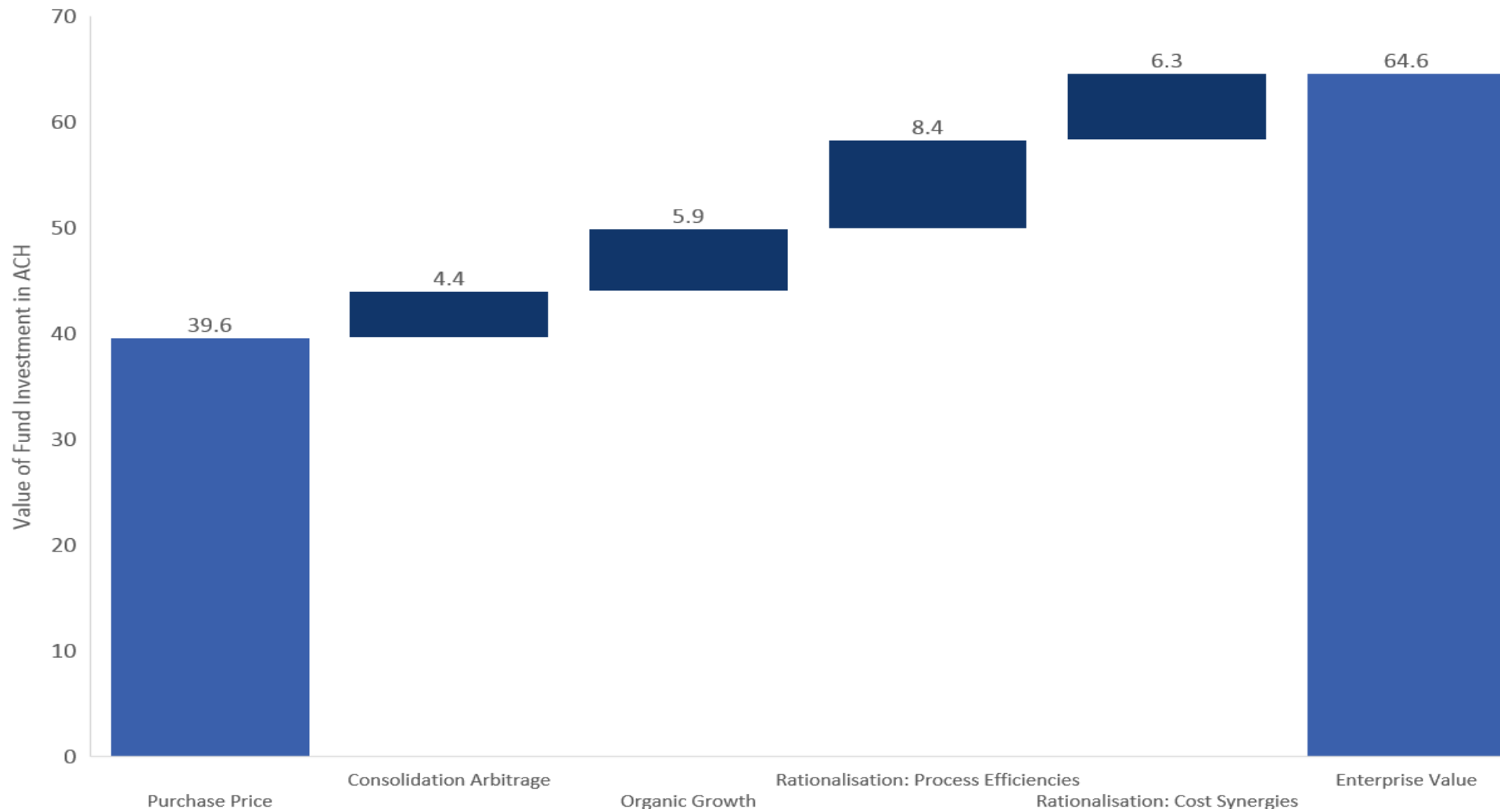
- The DD process prior to purchasing the businesses usually **signals areas for improvement**
- **Process change** is spearheaded from the first moment
- **Evaluation of and integration** of managerial positions is carried out
- **Economies of Scale** are typically implemented throughout the business
- Scaling the business and adding proper processes typically **improves care quality**



Investment Strategy – Yield

- Following the **rationalisation**, businesses are efficient and well managed
- Process change means that **care outcomes** are improved
- Well run businesses **yield** c.38% EBITDARM
- This forms the **foundation** of the portfolios return

Typical Acquisition – ACH Example





Risk Factors

- Finding Staff** 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.
- Wage costs** 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.
- Occupancy** 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.
- Market valuations** 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.
- Exit** 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.
- Brexit** 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

The Fund's Operating Company



The Group's characteristics

- 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
- Through which the fund owns **150 specialist care facilities**, caring for over 1000 individuals

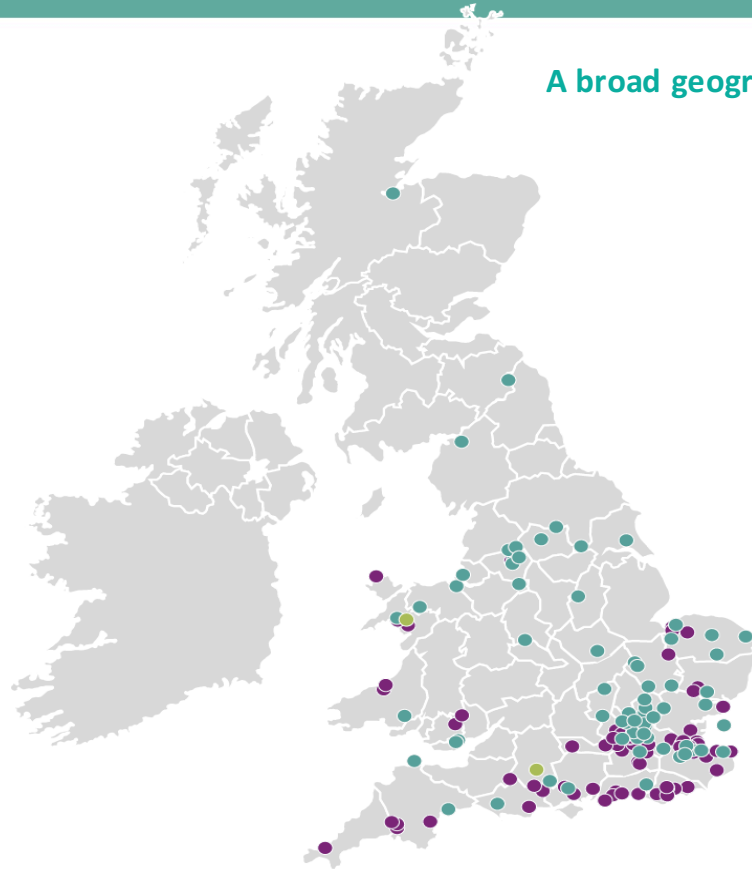


Care Quality

- 87% of the Fund's Care Homes are rated **good or outstanding** by the CQC, against a national average of 78%¹
- Track record of **transforming the lives** of those we support
- Care quality grading is key for **sustained engagement** of the local authority
- We believe a focus on care quality ensures the **longevity** of the business and ultimately, means a **higher value** on exit

Portfolio and Financials

A broad geographical spread with strong financial performance



- Residential services
- Supported living
- Day care

Blended Home Performance

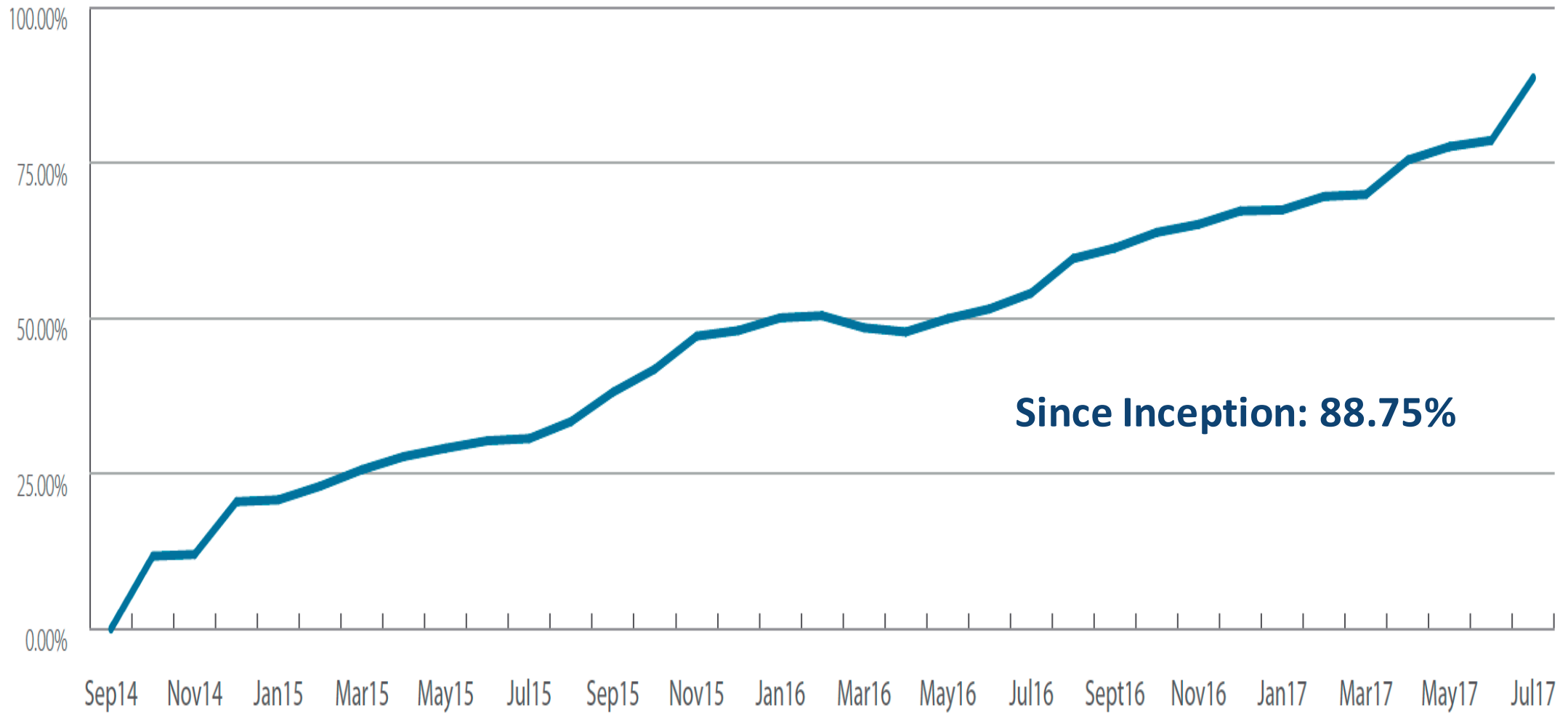
Number of Services	150
# of Beds	1,100
Home Staff Cost	57%
Home Admin Costs	5%
Head Office Cost	10%
Group EBIDTA Margin	28%

The Montreux Healthcare Fund

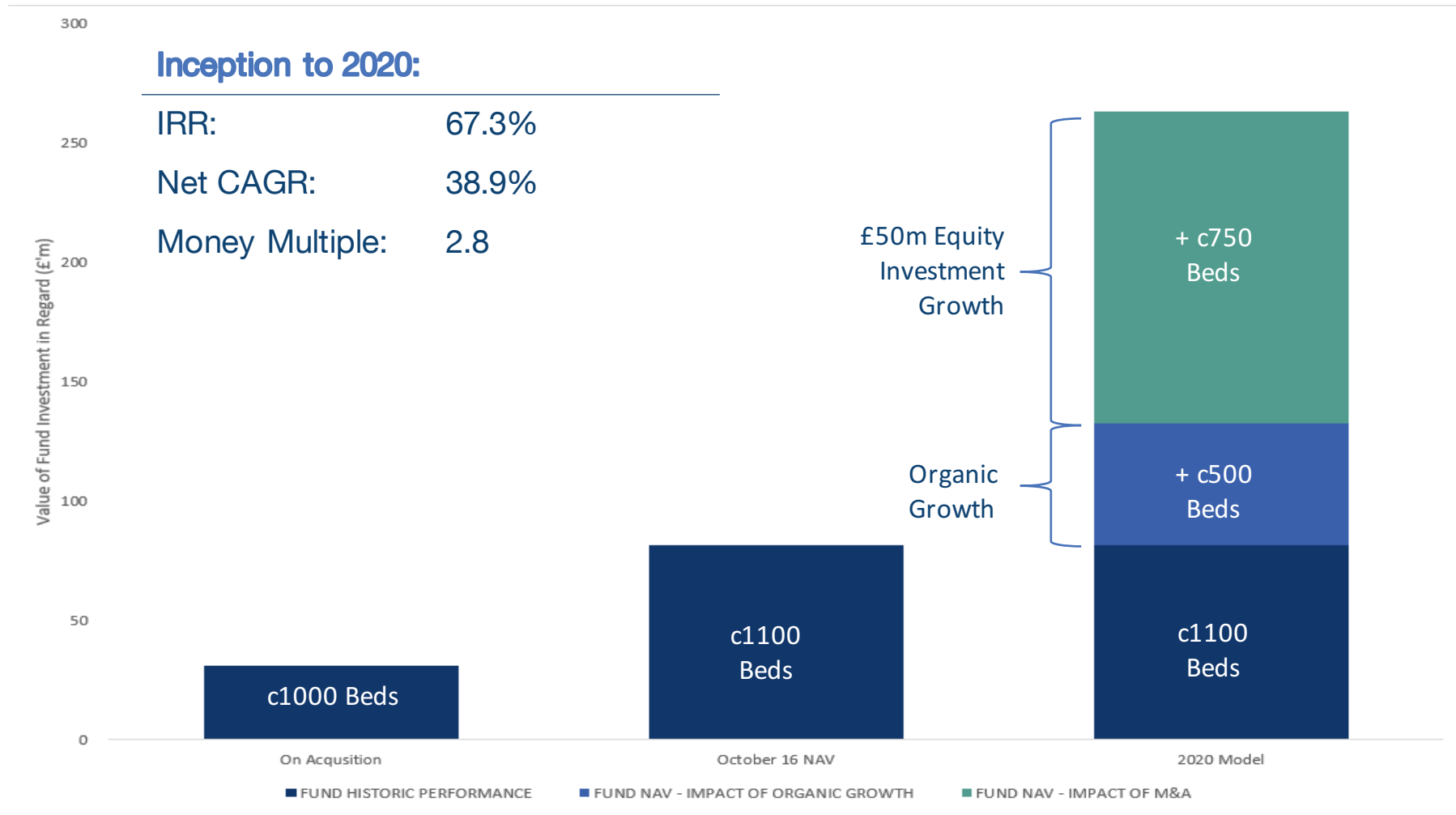
Performance and Forecast



Montreux Healthcare Fund Performance as of July 2017



Montreux Healthcare Fund 2020 Outlook



Exit Opportunity: Asset Sale

Upward moving multiples in a buoyant market for large acquisitions:



Sources Company information, Rothschild estimates

Notes

1 LTM multiple



Fund Terms – Share Class A

Domicile:	Isle Of Man, Qualifying Investment Fund
Dealing:	Monthly
Redemption notice period:	Monthly + 60
Currency classes available:	GBP / USD / EURO / CHF (fully hedged)
Annual Management fee:	1.5%
Performance Fee:	20% after a 0.83% monthly hurdle is achieved + HWM
Manager:	Apex Fund Services IOM
Legal Advisers:	Appleby IOM
Custodian:	Cayman National Bank IOM
Auditors:	KPMG IOM
Investment Adviser:	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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Further information and a copy of the offering document as well as the latest reports and accounts can be obtained by contacting the manager, Apex Fund Services (IOM) Ltd. info@apex.im The Manager and Registered Agent of Montreux is Apex Fund Services (IOM) Ltd, incorporated in the Isle of Man, Company Number 002175V and having its registered office at Exchange House 54-58 Athol Street Douglas Isle of Man IM1 1JD. Apex Fund Services (IOM) Ltd is licensed by the Financial Services Authority of the Isle of Man.

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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%

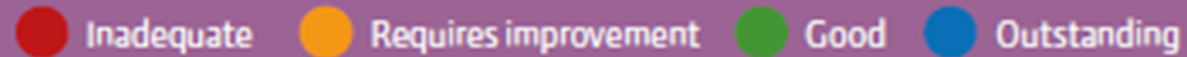
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Appendix II: Governance

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."

Our key role is to ensure that services operate in a way that demonstrates to 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.