

# The sense in investing in UK mental health

## Recent transactions bring significant changes in control

In the last two years, two of the UK's largest providers, the Priory Group and Elysium Healthcare, have been acquired by MEDIAN Kliniken (a portfolio company of Waterland Private Equity Investments since 2011) and Australian-based Ramsay Healthcare (for £775m)<sup>1</sup>, respectively. Ramsay is already the largest provider in France,<sup>2</sup> with 132 facilities.

In the EU, listed player Korian acquired Spain's Ita Salud Mental<sup>3</sup> in 2021, a year after it had acquired Inicea's twenty French hospitals.<sup>4</sup>

Investors appear to believe in the value of owning similar services across international borders, despite few obvious cost synergies in such complex services and very different public payment models and policies. There is, nevertheless, an argument for hedging against the fiscal environment across different countries and sharing best operating practices.

## Long-term trend towards internationalisation

International acquirers in the previous decade were American. Universal Health Services (UHS) has owned Cygnet Health Care since 2014,<sup>5</sup> and what had been the

adult services division of Cambian Group since 2016, having paid £377m<sup>6</sup> for the latter. Acadia Healthcare has been and gone, having bought the Priory Group in 2016 for £1.3bn<sup>7</sup> before exiting to Median-Kliniken.

During its ownership, BC Partners formed Elysium Healthcare for £230m in 2016 from the Priory Group disposals required by the Competition & Markets Authority.<sup>8</sup> It remains to be seen whether Waterland Private Equity Investments, owner of Median-Kliniken and now The Priory Group, will be carving-out any part of the business, as The Priory Group did with its children's services under the brand Aspris.

In other transactions, ORPEA acquired all remaining shares of Sinoué group in 2019, building from its minority stake of 45%. The acquisition included the Nightingale Hospital in Marylebone, London.<sup>9</sup>

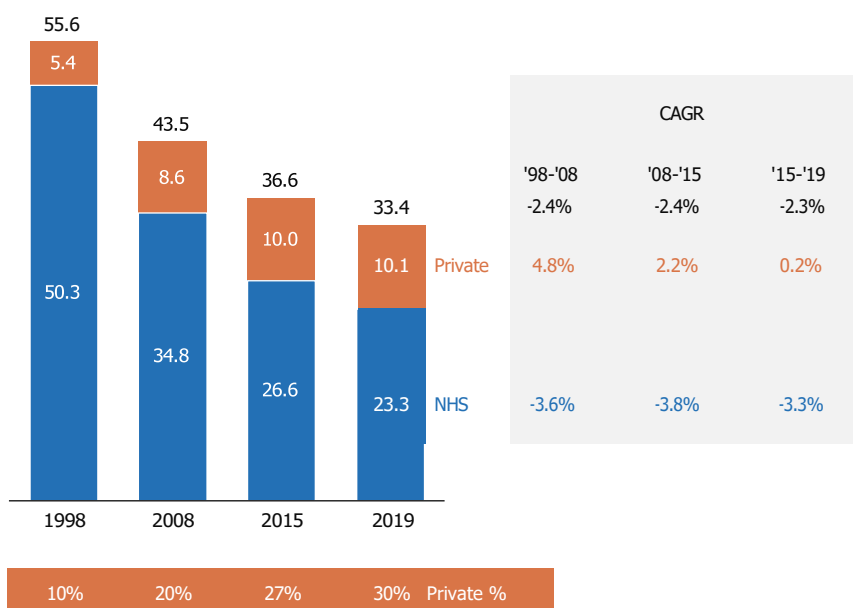
Private equity - specifically Montreux Capital Management - acquired the Huntercombe Group for £35m, which they subsequently merged with Active Care Group. Huntercombe is known for acquired brain injury provision, while Active Care provides high acuity homecare amongst other specialist services.<sup>10</sup>

We are also seeing many digital-only teleconsultation and subscription services, including personal wellness and monitoring apps, entering the market and attracting significant investment. Though this adjacent sector is very active, we focus here on inpatient services that require physical infrastructure and carers.

It is this sector that has traditionally required and rewarded corporate involvement. Some 95% of state spending in private provision pays for episodes as an inpatient, almost always extended stays.

**FIGURE ONE – CAPACITY GROWTH**  
**CAPACITY IS DECREASING BUT INDEPENDENT PART IS GROWING**

NUMBER OF BEDS IN MENTAL HEALTH HOSPITALS, UK, 000s



NOTE NORTHERN IRELAND ESTIMATED

SOURCE LAINGBUSSON, THE DEPARTMENT OF HEALTH, STATISTICS FOR WALES, SCOTTISH HEALTH STATISTICS, ISD SCOTLAND

## UK's 21st Century inpatient capacity decline

The decline in total UK in-patient capacity, including acute, forensic and long-term beds, is clear in Figure One. NHS providers have closed much capacity and although private provision has grown, this has offset only part of the decline.

Bed numbers are potentially a misleading measure of capacity, and no less so than in mental health. Capacity may exist, but it is often not in the right location or segment, and so private providers' occupancy has improved, as depicted in Figure Two.

We are told there is pressure on mental health services nationally owing to a mix shift towards higher acuity. The supply-demand balance, therefore, is shifting in the favour of private providers owing to the simultaneous combination of a steady growth in need, the reported mix shift and diminished public supply.

No material expansion of NHS capacity is expected in the foreseeable future, owing both to the lack of capital budget, the lack of nurses and the public providers' relative lack of interest in the type of long-term care that requires highly systematic processes for chronic conditions necessitating an approach more akin to social care.

At the same time, the policy of NHS providers has been to expand non-inpatient services, supporting more patients in clinics and even at home, rather than in hospitals.

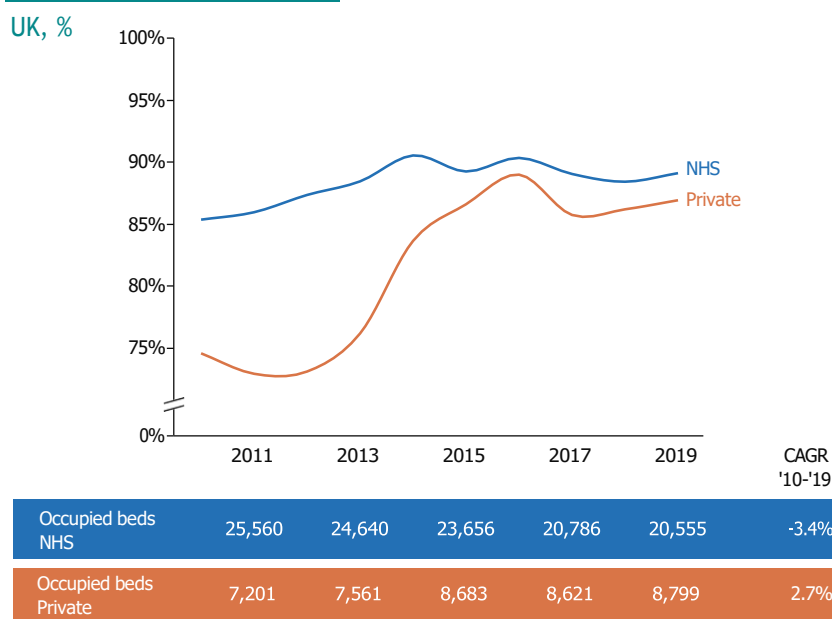
## Concentrated private share

The four main players in the market currently have about two thirds of private capacity in the UK, as shown in Figure Three.

The Priory Group (Waterland Private Equity Investments) is led by CEO Rebekah Cresswell, previously COO of their Adult Services (specialist learning disabilities) division, while Dr André M Schmidt remains CEO of the overall MEDIAN Group. The Priory Group acquired Castlecare Group (2014) and Life Works (2015) before its failed attempt to absorb Partnerships in Care in 2016.

Cygnit Health Care (Universal Health Services) is led by CEO Dr Tony Rome-

**FIGURE TWO – OCCUPANCY RATE**  
NHS MENTAL HEALTH BED OCCUPANCY REMAINS HIGH (c.90%), DRIVING INCREASED OUTSOURCING



NOTE OCCUPANCY RATES FOR THE PRIVATE SECTOR WERE ESTIMATED BY USING A WEIGHTED AVERAGE OCCUPANCY RATE OF PRIORY, ELYSIUM, FOUR SEASONS AND ST ANDREW'S HEALTHCARE  
SOURCE LAINGBUSSON

**THERE IS PRESSURE ON MENTAL HEALTH SERVICES NATIONALLY OWING TO A MIX SHIFT TOWARDS HIGHER ACUITY**

ro, who came to the business via his management buy-out of Cambian Adult Services in 2016, also supported by UHS. Romero was originally a co-founder of Cambian in 2005. Before that, Cygnit acquired Alpha Hospitals in 2015.

Elysium Healthcare (Ramsay Healthcare) continues to be led by CEO Joy Chamberlain post the acquisition. She had been CEO of Partnerships in Care CEO from 2011, before leading the divestment of 22 sites in 2016 that created

Elysium. She subsequently grew the business to 70 sites.

St Andrew's Healthcare (a charity since 1838) currently only has an interim CEO, Jess Lievesley, who joined in April 2019 from an NHS provider in Hertfordshire where he had been Executive Director of Delivery and Service User Experience.

## Mental health dependent on public spending

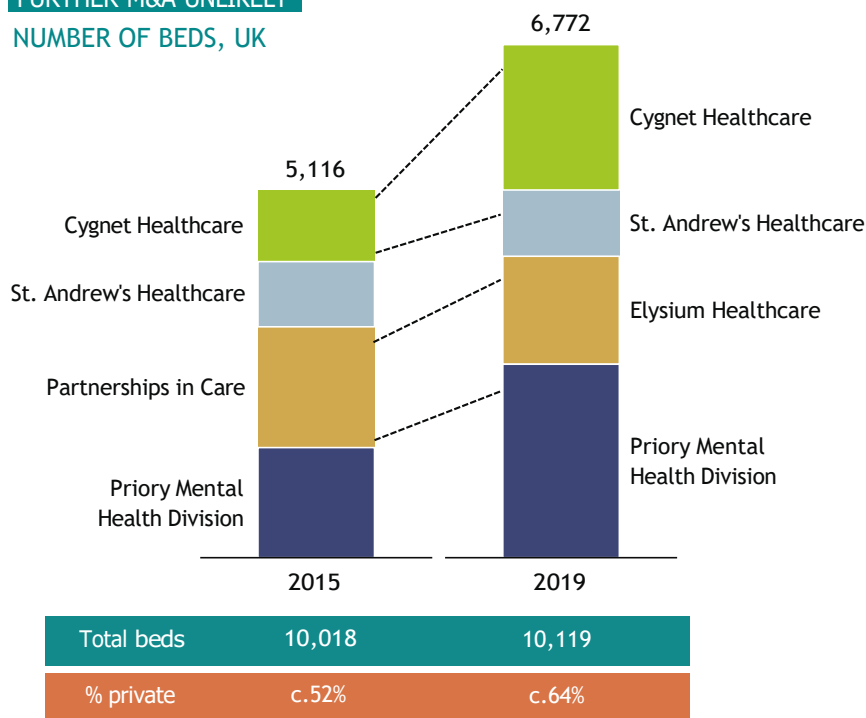
The state - through the NHS - pays for 90% of mental hospital services. We estimate the total UK in-patient market at around £5.2bn, depicted in Figure Four, once we include internal referrals within and between NHS Trusts at non-market prices and some insurer spend. A third of this, or £1.8bn, goes to private providers.

## State budgets growing but shifting outside hospitals

Spending over the past three years has increased at nearly double the long-term historical rate. The key policy has been the NHS Mental Health Investment Standard, which requires Clinical Commissioning Groups (CCGs) to increase spending

**FIGURE THREE – MARKET CONSOLIDATION COMPARISON**  
**PRIVATE MENTAL HEALTH HOSPITAL MARKET CONSOLIDATION OF 64% MAKES**  
**FURTHER M&A UNLIKELY**

NUMBER OF BEDS, UK



SOURCE LAINGBUISSON, MANSFIELD ANALYSIS

on mental health by at least as much as the increase in their baseline budgets. All 135 CCGs achieved the standard in 2020/21 and we do not expect this to end any time soon.

In 2021 the NHS also received £500m<sup>11</sup> as part of the Government's Mental Health Recovery Action Plan. We believe that this spending increase will continue through the 2019 NHS Long Term Plan's ten-year period.

This increase, however, should go to 'in the community' and outside hospital services. This policy goal is illustrated by the year-to-2018 increase in spending of 20% from £3.6bn to £4.3bn. Indeed, of adults with severe mental health problems, 90 per cent are already supported by community services.<sup>12</sup>

Compared with inpatient care, community services have been retained in-house. We estimate such spending with private providers to be only c.£100m annually.

## Private funding to remain small

The private market, either insurer and household (out-of-pocket or self-pay) is far

smaller than the public one and, in 2018, total private spend on in-patient services was only £173m.

Insurers have expanded benefits, however, and so demand has grown. One example from 2018 is Bupa's launch of Business Mental Health Advantage cover, which was then extended to individual customers and their families in 2019.<sup>13</sup> Similarly, Aviva launched a mental health option for large companies in 2019, specifically to support employees with addiction problems.<sup>14</sup>

Despite these new offerings, inpatient coverage normally remains time-limited to short stays of less than a month per year. Furthermore, there is no private coverage for chronic (i.e. long-term, often lifelong) conditions. Of course, UK private insurers are certainly not mandated to cover applicants and do adjust premiums based on previous claims so many patients cannot afford private cover, again limiting the growth of the private market.

## Profits pressured downwards

Private occupancy had been recovering

nationwide through the decade of the 'teens' as shown in Figure Two. Despite this, EBITDAR margins have declined, which we ascribe to increased staffing costs and perhaps pricing pressure from increased competition in local markets. Private providers must continually seek opportunities to redesign services to meet local commissioners' needs more precisely.

Margins remain between 15–20%, as shown in Figure Five, and sufficient to attract extensions of existing capacity, if not necessarily new entrants outside specialist niches.

The common issue across the care sectors has been the staffing challenge. Figure Six shows how the number of inpatient nurses in NHS mental health have declined. This directly reflects closure of capacity, but causation travels both ways as the challenge of staffing drives

## THERE IS PRESSURE ON MENTAL HEALTH SERVICES NATIONALLY OWING TO A MIX SHIFT TOWARDS HIGHER ACUITY

capacity exits.

Though the Covid pandemic has been an unprecedented challenge for the sector, the CQC recently found that services had coped well overall. However, the same CQC report also pointed to significant unmet needs during lockdown that could increase the risk of hospitalisation and flagged the pandemic also highlighted a need to modernise many mental health wards, not least to assist with infection control.<sup>15</sup>

This will also affect providers' bottom lines, if in only a minor way.

## Growth opportunities

The core opportunity in the sector remains expanding into the gaps created by a lack of capacity in public providers to staff and manage their services appropriately.

Corporate providers can perhaps pay front-line staff and managers better but, most often, they can compete by simply making their services better places to work.

Community services represent an option, though a much smaller market and a relatively unproven model.

Future growth in total demand for mental health services will be met by community services. Indeed, community service demand is increasing rapidly as commissioners seek to step-up these offerings.

There is also no fundamental barrier to corporate players becoming part of the Provider Collaboratives, especially where they can demonstrate savings in inpatient services.

Provider Collaboratives are NHS led consortia of NHS and 'independent sector' providers in specific service areas with common objectives to join up patient pathways, manage capacity more efficiently and reduce out-of-area placements.

Provider Collaboratives, however, do not stretch across all mental health services and no major corporate provider has delivered efficient outpatient services at scale across multiple sites, though small enterprises can do so locally.

In-patient service growth relies on local market knowledge and effective vertical diversification.

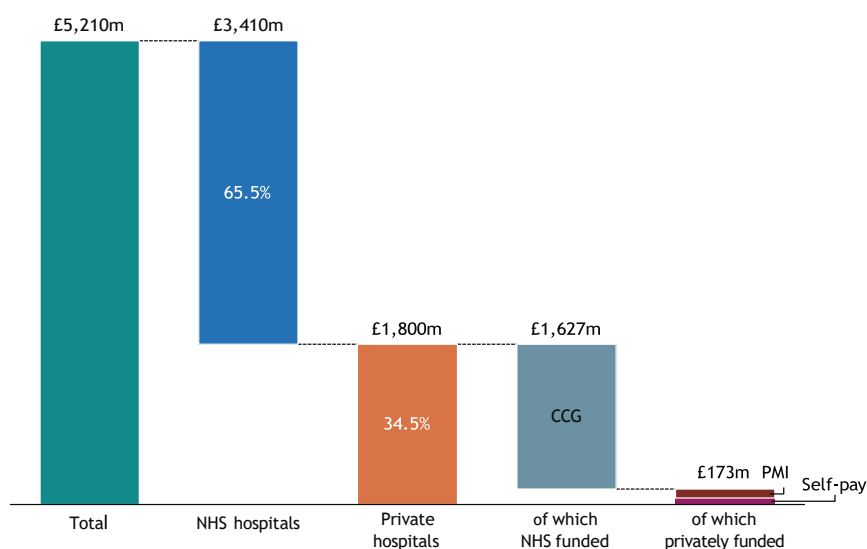
Industry mergers are not feasible as the CMA would disallow them, as shown by the Priory Group & Partnerships in Care example. You could argue that they should rather calculate the degree of industry consolidation by including the state-owned providers, which are really many different organisations under a single brand.

Large-scale NHS capacity reductions can not be necessarily extrapolated into the future. Instead, growth opportunities in the sector will depend on sensible local market knowledge, operational improvements and specialist services.

We return, therefore, to some concrete

**FIGURE FOUR – PAYOR SPLIT  
THE NHS FUNDS c.90% OF MENTAL HEALTH HOSPITAL SERVICES**

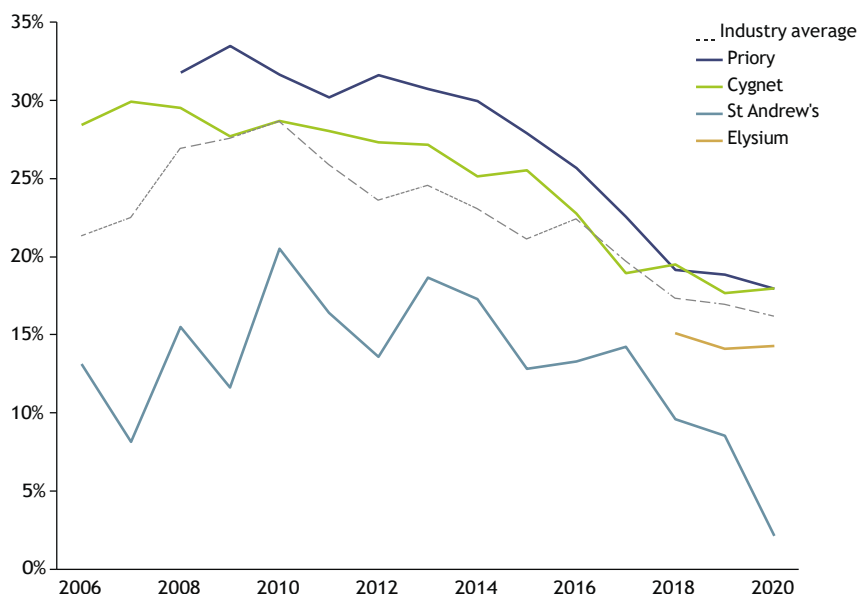
FY2019, ENGLAND, £M



SOURCE LAINGBUISSON DATABASE, LAINGBUISSON SURVEY, COMPANIES' ACCOUNTS, NATIONAL AUDIT OFFICE, NHS ENGLAND, NHS DIGITAL, NHS REFERENCE COSTS

**FIGURE FIVE – EBITDAR TRENDS  
MENTAL HEALTH MARGIN TREND IS DECREASING**

EBITDAR MARGIN, %

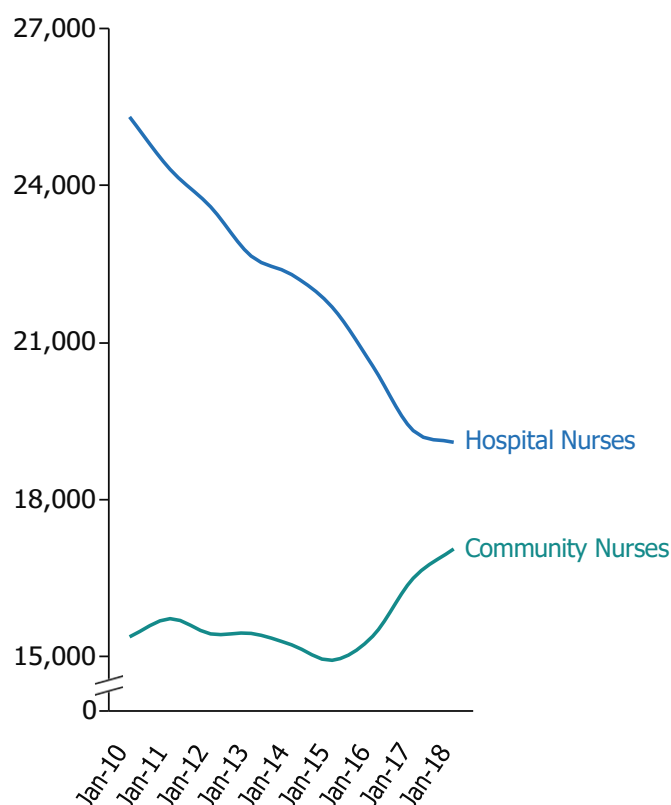


NOTE INDUSTRY EBITDAR INCLUDES DATA FROM ALPHA HOSPITALS, CAMBIAN, CYGNET, PARTNERSHIPS IN CARE, ST ANDREW'S HEALTHCARE, AND PRIORY (HEALTHCARE DIVISION)

SOURCE LAINGBUISSON, COMPANY ACCOUNTS, MANSFIELD ANALYSIS

**FIGURE SIX – NURSING STAFF SUPPLY**  
**NURSING STAFF SUPPLY FOR MENTAL HEALTH SERVICES IS IN SHARP**  
**DECLINE**

NUMBER OF FTE MENTAL HEALTH HOSPITAL NURSES



CAGR  
'10-'18

-3.5%

1.3%

## NOTES

- <https://www.ramsayhealth.co.uk/about/latest-news/ramsay-aquisition#:~:text=Ramsay%20Health%20Care%20secures%20agreement%20to%20acquire%20Elysium%20Healthcare,-13%20December%202021&text=Global%20healthcare%20business%20Ramsay%20Health,private%20equity%20firm%20BC%20Partners>
- <https://www.ramsayhealth.com/-/media/Documents/RHC/Performance-Report/Reports/2020/Impact-Report-2020.ashx>
- <https://www.businesswire.com/news/home/20210601005614/en/Korian-Creates-the-3rd-European-Mental-Health-Platform-After-Completing-Its-Acquisition-of-Ita-Salud-Mental>
- [https://www.korian.com/sites/default/files/documents/16.12.2020%20Inicea%20acquisition%20completion\\_EN\\_1.pdf](https://www.korian.com/sites/default/files/documents/16.12.2020%20Inicea%20acquisition%20completion_EN_1.pdf)
- <https://www.cygnethealth.co.uk/news/uhs/>
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- <https://www.adventinternational.com/advent-international-completes-sale-of-priority-group-to-acadia-healthcare/#:~:text=London%2C%2017%20February%202016%20%E2%80%933%20Advent,to%20Acadia%20Healthcare%20Company%2C%20Inc>
- <https://www.bcpartners.com/private-equity-strategy/portfolio/elysium#:~:text=In%20November%202016%2C%20BCEC%20IX,the%20newly%20formed%20company%20Elysium>
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- <https://healthinvestor.co.uk/thg-merges-in-to-montreux-active-care-group/>
- <https://www.gov.uk/government/news/mental-health-recovery-plan-backed-by-500-million>
- <https://www.england.nhs.uk/wp-content/uploads/2016/02/Mental-Health-Taskforce-FY-FV-final.pdf>
- <https://www.lifeinsuranceinternational.com/news/bupa-mental-health-cover/>
- <https://www.aviva.com/newsroom/news-releases/2019/07/corporate-mental-health-cover-extended-to-all-addictions/>
- <https://www.cqc.org.uk/news/releases/cqc-finds-mental-health-inpatient-services-coped-well-coronavirus-covid-19-there-will>
- <https://www.bdo.co.uk/en-gb/deals/deals/acquisition-of-cornerstone-health-care-group-by-ignite-growth>

NOTE FTE FULL TIME EQUIVALENT  
 SOURCE NHS DIGITAL

inpatient/residential opportunities:

- Careful organic growth in local markets, where the need is well understood, and more capacity is needed by local commissioners. There is a semi-permanent need to consider the service offering carefully to maximise occupancy and mix
- Vertical diversification into step-down and long-term accommodation, such as community hostels and supported living packages, has always seemed to make sense, especially for forensic and detained patients who need a long-term solution and a plan for re-entry into their own community
- A smaller opportunity exists for elderly mental illness, especially where there is challenging

behavior. These services by their nature are less long-term, but larger services akin to an elderly care home (with wards in manageable mini-services on a single site) are possible and distinguish the offering from smaller residential or supported living environments. Examples include Weight Partners Capital and Towerview Care or Ignite acquiring Cornerstone Healthcare Group<sup>16</sup>

- There is clearly no barrier to international acquisitions and therefore European M&A opportunities should be considered.

- ty-strategy/portfolio/elysium#:~:text=In%20November%202016%2C%20BCEC%20IX,the%20newly%20formed%20company%20Elysium
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