ARK ACQUIRES ANCHOR BRANCHES

Anchor is moving away from contracted local authority services in home care with the recent sale of six of its local authority funded home care operations to Ark Home Healthcare.

With the assistance of private equity partners Ashridge Capital and Core Capital, domiciliary care company Ark Home Healthcare (Ark) has paid an undisclosed sum for six Anchor home care operations located in Yorkshire, the Midlands and London. Although the sum Ark paid is unknown, it has been reported that Ashridge Capital and Core Capital both invest between £4 million and £30 million in businesses valued at between £10 million and £100 million.

REASONS TO SELL

When acquisition talks were announced in June 2011, it was reported that Ark would take over Anchor's home care service, leaving Anchor to focus on providing care in its own properties and retirement villages, as well as the communities around them. Anchor's head of transitions, Andrew Railton, said at the time: 'Our care branches are not always in areas where we have a significant concentration of Anchor properties. We are therefore in discussions about transferring the home care service we currently provide into non-Anchor locations to Ark Home Healthcare.

Commenting on the recent announcement to sell the six home care operations, Jane Ashcroft, Chief Executive of Anchor, told CMM that Anchor is more focused on joining up its services – such as providing home care into its retirement housing. 'Anchor has traditionally focused its home care on local authority contracts. Recently, our experience has been that funding is tight and our ability to provide a quality service has been difficult to achieve within these constraints. For some time we have found this difficult.'

Jane told CMM that just under half of its income comes from the State in one form or another. It will shift over time to a greater proportion coming from individual customers but local authority relationships will continue to be very important for Anchor. Jane added that the company is moving away from contracted local authority services in home care, although local authorities will remain very important to Anchor across its other services, which include extra-care, retirement housing and care and nursing homes.

Jane told CMM: 'Looking forward, we want to focus on providing integrated services, such as supported living and extra-care. Ark approached us and offered a solution that would determine a definite future for the staff and service users, avoiding a re-tendering process.'

ARK'S ACQUISITION

Ark currently has 3,000 private and local

Divesting these operations makes sense

Ark's amalgamation of a top level board of directors and acquisitive group of shareholders has already seen the group grow quickly over the last year. The acquisition of the six branches previously operated and owned by Anchor should not be a surprise to anyone.

In many ways, Anchor's decision to sell is equally understandable. The sector is becoming increasingly specialised and it makes a lot of sense for them to divest themselves of anything not viewed as core business.

This further professionalism of the home care industry is not only inevitable but is to be welcomed.

Home care, from the inception of the NHS and Community Care Act in the early '90s, has been an industry which has evolved surprisingly slowly. In an arena where inherently there is more demand than supply, many companies have seen themselves as purely providers rather than businesses. Whilst it would be patently untrue to say that Anchor has ever been anything other than a thoroughly professional company, the growth of an organisation like Ark is symptomatic of the industry's need for properly run, commercial organisations.

However, there are lessons to heed as well. The speedy growth of some acquisitive companies in the early part of this century saw a plethora of brands under the same ownership ultimately competing with one another. A diverse and unclear set of brand values no doubt made sense to those inside the circle, but were confusing and contradictory for any potential customer who took the trouble to investigate the corporate maze.

Anyone who works in home care understands it isn't easy to build an effective and profitable business and the directors in Ark's boardroom, who have a wealth of experience, will understand, only too well, the challenges they face.

Activity will focus on targets and locations

The local authority market continues to see operators favouring framework agreements over block contracts, as this generates higher fees on a spot contract basis. Sustainability of revenue from a funding perspective is impacted under this strategy, so operators need to be confident around supply and demand within their local markets.

It is clear that many local authorities have targets to reduce reliance upon residential care to enable them to work within revised budgets. This should have a positive impact on the home care market, as many service users will be encouraged to stay at home or be routed through supported living and extra care models if appropriate. Activity in the market will continue to focus on targets and locations that fit within wider strategic agendas, with finance likely to be sourced from banks for small and medium operators and private equity for corporate entities that have a clearly defined acquisition strategy.

Ark has an aggressive expansion strategy and whilst it is clear that this, and other, acquisitions will bolt onto existing operations in terms of geography and scale, the true challenge and opportunity will lie within the cost base being acquired and the fee structure/mix of the 14 contracts that are being acquired. The clue is possibly in the status of Anchor as England's largest not for profit housing and home care provider for older people. Many not for profit operators typically focus on high quality care utilising surplus capital to reinvest in service provision, without the need to focus greatly on cost efficiency or shareholder return. This would lead me to suspect that appropriate cost synergies may be possible within the acquisition that would prove attractive from an investment viewpoint. The challenge for Ark is to realise the synergies presented by this latest and previous acquisitions, whilst maintaining appropriate investment to ensure that they continue to provide quality care in a market where reputation is key.

authority clients and employs 1000 carers and 100 office staff. The new deal will create an additional 500 new jobs in the next six months.

Since its formation in June 2010, the company has completed and successfully integrated five acquisitions: AG Care in Lewisham and Brixham, Breslin Health and Social Care in Ealing, Mac Caring Agency in Crowthorne, Wokingham and Bracknell, Better at Home in Woking, Esher and Ewell and New Start in Woking.

The Anchor branches are its sixth purchase to date, and the provider is looking to make further similar business acquisitions over the coming months as part of its plan to expand geographically.

While investing in the home care businesses already established by Anchor, Ark plans to extend its network of carers throughout Yorkshire, the Midlands and across all of the London Boroughs. It estimates that 500 nurses and care workers will be required to facilitate the expansion.

TAKEOVER WITH TUPE

The deal will see Ark take over 14 local authority contracts and 460 staff transferred to Ark in accordance with the *Transfer of Undertakings (Protection of Employment) Regulations (TUPE)*. *TUPE* is a piece of legislation adopted by the UK in order to implement the *European Acquired Rights Directive*. Its effect is to move employees and any liabilities associated with them from the old employer to the new employer by operation of law.

'This deal has meant that the services have passed seamlessly to Ark, and enabled them to carry on their focus on this area of care services, working with local authorities,' Jane told CMM.

Ark's CEO, Mark Lavery, who previously worked as Managing Director of Claimar Care and prior to that as Managing Director for Allied Healthcare, told CMM: 'The TUPE regulations haven't affected the transaction for us at all. We are more than happy to take on all the staff involved to ensure the continuation of service for our customers.

'Making sure the same good quality of service is maintained is vitally important to us. All the employees of the acquired businesses have transferred directly to Ark with no changes to their terms and conditions of employment.'

FUTURE FOCUS

Commenting on the acquisition, Mark told CMM: 'We are very much looking forward to working with the new teams. We have training and development strategies in place, as well as market leading technologies, to ensure we provide the best possible home care services for our customers and excellent career opportunities for our staff too.'

As for Ark's expansion plans for the future, Mark added: 'Our investors are keen to support further high quality home care acquisitions in particular those that would benefit from the financial and highly experienced management support that Ark can offer.'

Over to the experts...

Will we see more providers looking to sell home care businesses that rely on local authority funding? Is this a wise move for Ark? How can they make profit and ensure quality care?

More divergence is expected

Historically the vast majority of care has been provided through Local Authority contracts, primarily through short duration, task based visits. Companies delivering this type of service need a very different operating model to one focused on providing care based around the needs of the individual.

The financial pressures on local authorities delivering care through a block contract inevitably means low margins, therefore to be successful in this arena providers need to have significant economies of scale and highly efficient logistical operations; I expect more consolidation in this area as smaller companies struggle to make a viable return on the rates being paid.

Whilst there is a need for this type of care, a 'one size fits all' solution is not the answer. For many people short duration visits with limited consistency of carer are not appropriate and there is a need for a wide range of providers, including both Ark and Anchor. We believe it is virtually impossible to provide both block contracts and bespoke person-centred care, the operating models for each approach are too diverse. We expect more divergence in the sector as companies seek to specialise, which will, in turn, provide more choice and options, enabling people to receive the right care for them.

Anchor's statement that providing a quality service is difficult under time and cost, and constraints of a block contract is one we identify with and as a company this is not an area we operate in. Home Instead has recognised that high volume, low contact care is inconsistent with our values of quality care provision.

Companies such as Home Instead and Anchor demonstrate that you can be a large, national, provider without having to fulfil block contracts, a radical departure from how care sector has operated