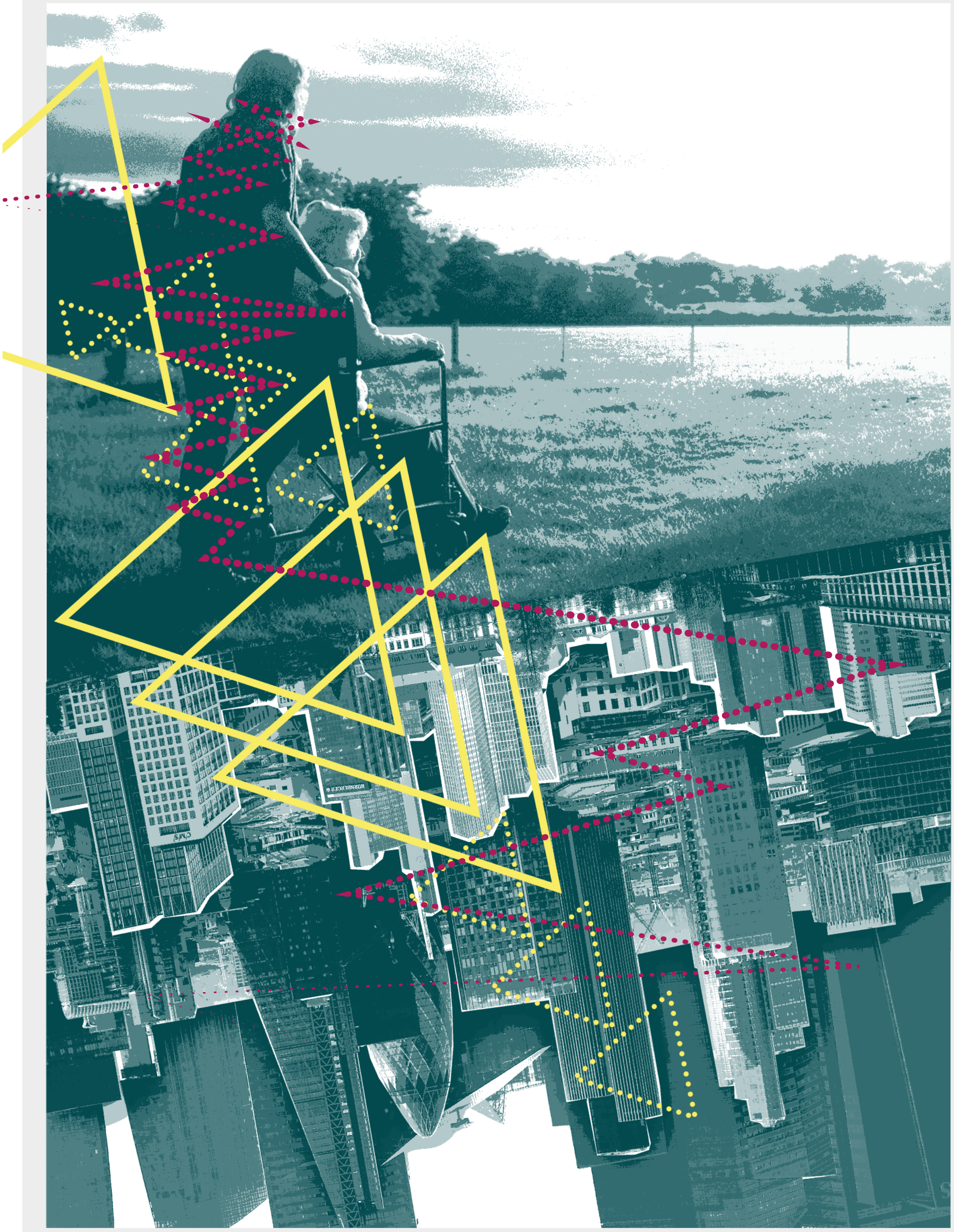
TRANSFORMATIVE RESPONSES TO THE CRISIS

THEY DON'T CARE - HOW FINANCIAL INVESTORS EXTRACT PROFITS FROM CARE HOMES

A Study on Private Equity Investments in Care Homes in France, Germany and the UK



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EXECUTIVE SUMMARY

The financial sector no longer fulfills its desired role as servant to other sectors, and has begun to dominate the so-called "real economy". In a process sometimes called "financialisation" the relationship has changed between financial actors like banks, insurance companies and specialised financial actors, on the one hand, and non-financial companies, on the other.

Our report looks at the care sector and more specifically at the role that private equity firms have played in it, as part of the „financialisation" of this vital area of our societies. This focused approach, looking at cases in France, Germany and the UK, shows financialisation as it happens in the real world.

The care sector seems to be the perfect investment target for private equity firms, and the investors they serve. Demand for care has grown rapidly and will continue to grow in response to ageing populations. It provides reliable income streams through public insurance schemes and taxpayer money. Care home chains' real estate is an attractive asset for investors that can be repackaged and sold to other investors.

Our report documents the growing activities of private equity firms in the three countries, and the problematic outcomes as private equity actors buy up care home groups and re-engineer them for profit. We looked at the largest private-equity owned care home groups and in all cases we found that private equity firms used a similar toolbox to reap profits:

- Private equity owners put **little of their own money at risk**, instead using a) „other people's money" supplied by co-investors such as pension funds, and b) using unusually large amounts of **debt** to magnify their investments. Large parts of this debt is pushed down on the acquired companies, **threatening the long-term viability of the care home group**.
- Care home groups are often forced to serve "**shareholder loans**" with high interest rates. In some cases, this has contributed to care home groups becoming technically insolvent, as we show for the collapse of Southern Cross in the UK.
- Private equity firms **acquire care home real estate and re-engineer real estate holdings**. In all cases studied, care home groups have been stripped of their real estate, and were forced to rent them back (sale-lease-back).
- In all cases, profits of care home groups were **transferred to parent holdings in offshore financial centres** such as Luxembourg or Jersey.

The pandemic has made clear that our societies heavily rely on a functioning care sector as a vital part of our public infrastructure which is often publicly subsidized. The entry of risk-seeking financial actors with high profit expectations has changed the logic that governs care homes. The care sector has been financialised, leading to a substantially decreased quality of care and to leaks of public money that could have been used for the actual provision of care. All this happened while private equity firms and their investors secured high, often double-digit returns. The original purpose of care homes - caring for the elderly and the sick has been replaced by a new one - the creation of added value for investors.

Any transformative agenda that aims to reorient economic activity towards sustainability cannot succeed if financial logic prevails over the true purpose of economic and social activity in a vital sector like care.

STRUCTURE

1. INTRODUCTION: THE CRISIS IN CARE

The Covid19-pandemic has demonstrated the vulnerability of our societies. Supply chains collapsed, financial markets filled with risks and uncertainties, and **healthcare systems were under enormous strain**. Large care homes, in particular, saw major outbreaks of Covid infections[1], with a major increase in deaths[2]. At the same time, working conditions in the sector deteriorated during the pandemic (though this is also **a longer trend**.) Frontline healthcare workers - of which a majority are women[3] - carried out the most fundamental work[4]. People in many countries gathered on their windows and balconies to applaud their care workers.

The pandemic reminds us all that care is a central sector for current and future societies. Long-term care expenditures are among the fastest-rising in the EU, expected to increase to 2.5% of GDP by 2050[5]. Yet as more money goes in, many of the promised improvements for the sector are still to be realized. **Care is still underfunded and understaffed, and thus vulnerable to shocks** such as a pandemic. Many hospitals and care homes are under pressure to run profitable businesses, and favor short-term returns and efficiency over long-term quality. This general trend has impacted public, non-profit and for-profit organisations alike. The public good of healthcare has also become subject to the risky **investment strategies of financial actors like private equity firms**, where financial returns may take a higher priority to care, leading them to **consolidate and re-engineer care companies into large consolidated corporate groups,** generating tidy returns for them and their investors.

Private equity firms have transformed care home chains in thre three European countries we are looking at - France, the UK and Germany. But why are care homes so attractive for private equity, often offering outsized returns to their owners and investors?[6] The main reasons for the appetite for care homes are fairly straightforward. **Ageing populations** and an **ever-growing demand for care home beds**, the **attractive real estate owned by care home chains** and a sector with relatively **low collective bargaining power and quality controls** all make elderly care an increasingly

[1] Emmerson et.al. (2021): Risk factors for outbreaks of COVID-19 in care homes following hospital discharge: A national cohort analysis. Influenza Other Respir Viruses, 15(3): 371-380.

[2] DW (04/2020): German retirement homes isolate the elderly from COVID-19 threat (13.8.2021).

[3] Lotta et.al. (2021): Gender, race, and health workers in the COVID-19 pandemic. The Lancet, 397 (10281).

[4] Lokot/Bhatia (2020): Unequal and Invisible: A Feminist Political Economy Approach to Valuing Women's Care Labor in the COVID-19 Response. Frontiers in Sociology, Nov 2020.

[5] European Commission (2021): 2021 Long-term care in the EU.

[6] Over the past 25 years, U.S. private equity funds have made an average yearly net return (net IRR) of about 13% (1993-2018), according to Catherwood & Mehrotra (2021): Private Equity Outlook, 3 considerations for a competitive market (13.08.2021). It has to be mentioned, however, that IRR is sometimes considered an insufficient measure for the true returns of private equity funds as PE firms generally extract considerable fees from these returns (typically 6-7% per year), see KPMG (06/2016): Evaluating Private Equity's Performance (13.08.2021).

interesting investment target.[7] The rush of "liquidity" in financial markets, and a long-term decline in interest rates, makes it easier for private equity firms to raise debt, the bread and butter of their business operations. Competition authorities' rather lax approach to acquisitions[8] allows private equity to be an "acquisition machine" buying up companies in this sector (and in many other sectors). Last but not least, private equity firms can count on **steady income streams from patients' families and from public or quasi-public sources of funding**.

This appetite has **serious repercussions**. In the US, a recent study found a **higher Covid death rate in nursing homes owned by private equity firms,** as opposed to by other firms[9] and a generally **higher turnover of staff**[10] in those homes. Another recent report on the US retail sector[11] has shown how the entry of private equity has had dire consequences not only for workers, but also for the **economic viability of the "target companies"**. We show how the **state has in all cases actively fostered these developments** and how current financial regulatory[12] and tax loopholes[13] in different countries enable private equity firms to continue with this very lucrative business.

We offer potential reform avenues to build back better health systems in the future.

What is private equity?

Private equity firms are **specialized companies that pool money from third parties into a fund** – obtained from pension funds, or wealthy individuals, for example, and invest it for them, with the promise of high returns. They buy up companies operating in any sector, whether manufacturing, IT, healthcare, moviemaking, defence, or anything else. In some cases, they may genuinely improve the operations of sleepy companies.

But the main route to profitability, especially in the care sector where staff costs are such a high proportion of turnover, is typically to apply **financial engineering** to these companies – principally through getting them to borrow more, but also using **a toolbox of other techniques** – such as using tax havens to escape tax, paying workers less, relaxing environmental standards, and so on, to **extract higher financial returns**.

They assemble many smaller firms into larger more dominant companies, which tend to be valued more highly by financial markets than the sum of their parts. They then try to sell at a profit. The proceeds of the financial engineering and of the sale is then shared with their co-investors. On average, these extractive stratgies generate high *internal* returns to the fund, but after fees the outside investors on average receive low returns.

(Hedge funds use a similar model, but instead of investing in real companies they tend to invest in derivatives, currencies, bonds and more exotic financial instruments.)

Because private equity funds are not traded publicly on exchanges, they are subject to **less regulatory oversight**.

[7] Investigate Europe (07/2021): "The biggest private equity companies in the sector", part of *Grey gold — The billion Euro business of elder care* (13.08.2021).
[8] See, for instance: The Counterbalance (04/ 2021): The European System of Monopoly, and how to fix it, carrying an interview with Europe's former Chief Competition Economist, Tommaso Valletti.
[9] CBS News (02/2021): At private equity-owned nursing homes, an "enormous" increase in death rates, study finds (13.08.2021).
[10] New York Times (03/2021): High Staff Turnover at U.S. Nursing Homes Poses Risks for Residents' Care (13.08.2021).
[11] Our Financial Security (2019): Pirate Equity. How Wall Street Firms are Pillaging American Retail (13.08.2021).
[12] Warren (2019): The Stop Wall Street Looting Act (13.08.2021).
[13] New York Times (06/2021): Private Equity - How a Powerful Industry Conquered the Tax System (13.08.2021).

2. PRIVATE EQUITY'S TOOLBOX IN THE CARE HOME SECTOR

The role that financial actors and financial logic play in our economies has grown dramatically in the past 40 years. Ever since the deregulation of finance in the 1980s, financial markets have outgrown the real economy substantially and expanded into more and more areas of our society. The increasing dominance of financial actors, financial logic, and financial tools and techniques, is called "**financialisation**"[14]. Under financialisation, a growing number of companies are re-orienting their business strategies and even their ownership structures away from their core activities and towards the needs of their financial investors. As financial investors gain power or control over the management of companies, **they increasingly work to serve their shareholders at the expense of other purposes,** including the public interest.

This development has brought **new financial actors**[15] to the forefront which specialize in the re-engineering of companies and the buying and selling of financial assets, such as private equity firms.

In the past decades, financialisation and especially the activities of actors like private equity firms (see box) have led to a number of problematic dynamics in businesses and **previous common good sectors like care**. For one, the management and **relocation of financial assets** has often become more important than the actual improvement of products and services. In the case of private equity investments in care, companies may be forced to sell most of their assets (especially real estate) to free up cash to pay to financial investors. Moreover, **tax avoidance** techniques are used, **siphoning large sums to offshore financial centres.**[16] Fund managers and consultancies receive princely fees[17] for this work sometimes called "financial engineering" - thereby further **increasing the spread between financial sector gains and care workers' incomes**. Many of these techniques have proven to cause a **deterioration of working conditions and of the quality of care**.

Private equity firms have discovered the care sector. In 2018, the sector's global investments in healthcare resulted in more than 800 deals and $100 billion in capital invested.[18] Many of these firms **claim to "consolidate" and rationalize the target companies they buy** and portray their

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[14] Epstein (2005): Financialization. London: Edward Elgar.
[15] Windolf (1994): Die neuen Eigentümer. Zeitschrift für Soziologie, 23(2), 79-92.
[16] See also the excellent research by "Investigate Europe" on the business of elder care. Investigate Europe (07/2021): Grey gold – The billion Euro business of elder care (13.08.2021).
[17] Finance Magazin (03/2016): Private-Equity-Branche streitet über Managementgebühr (13.08.2021).
[18] Appelbaum/Batt (2020): Private Equity Buyouts in Healthcare: Who Wins, Who Loses? Institute for New Economic Thinking Working Paper Series No. 118, p. 3.

industry as a cornerstone of the European Economy.[19] (Consolidation, of course, is closely linked to monopolisation, another technique to extract wealth.) Swedish private equity firm Nordic Capital, buyer of the second-largest German care home chain Alloheim, invests in its portfolio companies with the aim of "accelerating growth and often identifying truly transformative angles"[20].

The private equity sector used to be called **leveraged buyout (LBO),** but it was re-branded after a series of scandals. Yet LBO still describes their core strategy, where the PE fund acquires another company using a **significant amount of borrowed money to meet the cost of the acquisition**. Crucially, the private equity *owners* make large profits, but as discussed below they "push down" the debts so that they are owed not by themselves, but by the companies that they buy.

While private equity firms themselves operate with relatively little own capital, they lever their investments with loans from other financial institutions.[21] This makes it possible for relatively small and unknown private equity firms to buy controlling shares of corporate giants.[22] Private equity deals in Europe typically **use debt of about six times a company's earnings**, clearly exceeding the debt level of listed companies.[23] The use of debt makes it possible for private equity firms and their investors to receive high returns for their investments. Especially in times of cheap credit and low interest rates, many investors look for lucrative alternatives to their current investments. This creates a soaring private equity industry[24], with **more than $3tn of assets under management and a growing stock of "dry powder",** i.e. capital that seeks (more) profitable investment opportunities. Fundraising rounds of global private equity companies set records in the last years, with ultra-loose monetary policy amplifying credit-driven funds and their investments.

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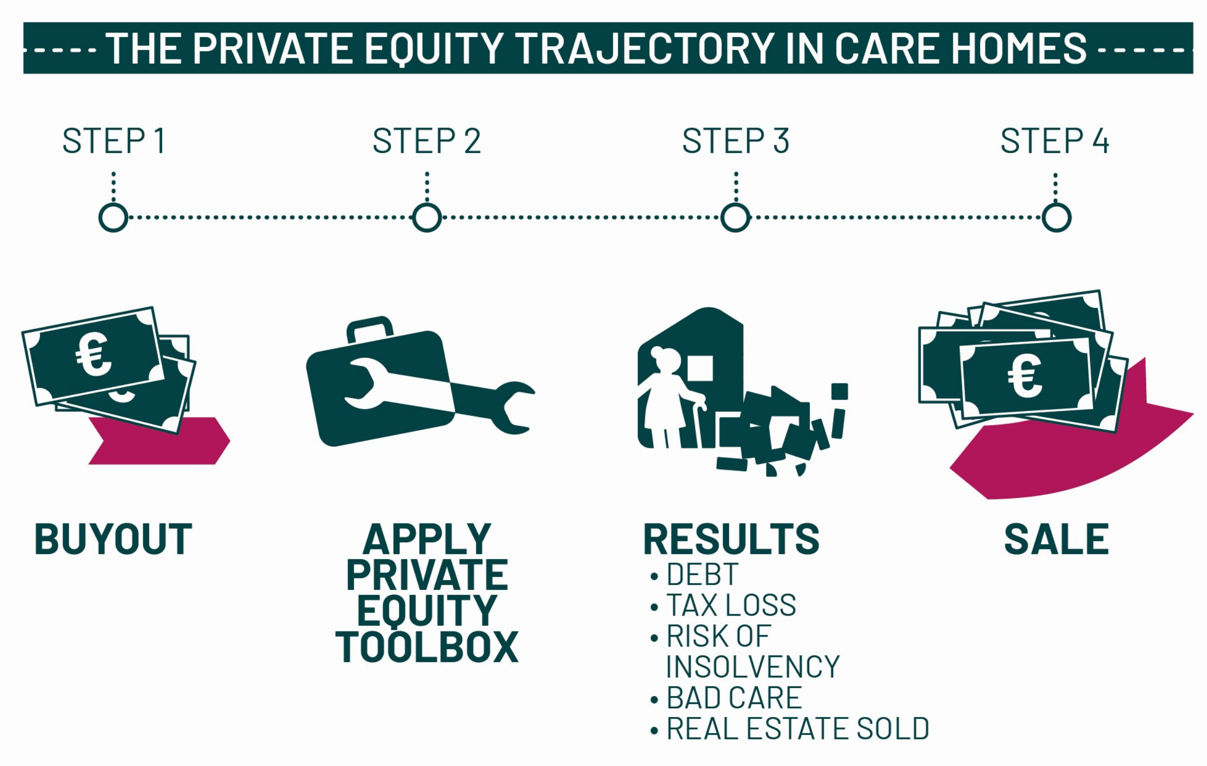
[19] InvestEurope (2020): Private Equity at Work (13.08.2021).
[20] Nordic Capital (2021): Ownership Excellence (13.08.2021).
[21] Appelbaum/Batt (2014): Private Equity at Work: When Wall Street Manages Main Street. New York: Russell Sage Foundation.
[22] The company's assets are then used as collateral for debt.
[23] Financial Times (07/2021): Private equity and the raid on corporate Britain (13.08.2021).
[24] Financial Times (06/2021): Private capital industry soars beyond $7tn (13.08.2021).



A typical trajectory of private equity's involvement in the care sector is illustrated above: **a debt-financed buyout** is followed by **a re-engineering of the "portfolio company"** (in our case the care home), an **expansion via further acquisitions**, and a **subsequent sale**. This timeline usually takes 5 to 7 years. Private equity firms generally will have a say in almost all decisions of the acquired company, and **extract fees** for many of their own services.[25]

A surprising aspect of private equity deals is where the debt for these buyouts is transferred. In the case of the private equity industry, the **debt used for buying a company is passed on to the companies themselves** (a so-called **debt pushdown**), so it is the care home operating company, and not the private equity owners, that is on the hook for the debts. The care homes are then not only operating for the provision of care, but also for servicing the debt that was necessary for their own buyout.[26] Two levels of debt may be involved: first, **external debt** (owed to e.g. banks;) and second, **internal debt** owed (often with very high interest rates) to their owners or "parents" – debts that are generally registered in low-tax locations like Luxembourg or Jersey. Each kind of loan, whether from external sources or an internal "shareholder loan" has very specific uses linked to the private equity firms' financial strategies. In some of the cases we studied, the large debt load on care home groups, especially from external debt, has forced them to file for bankruptcy.

[25] Appelbaum/Batt (2020), 7.
[26] See depiction of a typical debt pushdown operation by German financial market supervisor BaFin (2019): Private Equity und Venture Capital im Aufsichtsrecht, 16 (13.08.2021).

To minimise the amount of cash needed at the beginning of the operation, private equity firms also may make care home groups **sell their assets**, especially their real estate assets. This allows the investors to free cash for further acquisitions and demand care home groups to pay rents to the new owner of the real estate, often tied to very onerous long-term rental contracts which the operating company must pay, at the cost of quality of care. (The reason is that the long-term contractual promise of high rental payments make the real estate more valuable, and enable a higher sale price.)

Very often, as Alexandre Denby Wilkes of private equity firm Amundi PEF notes, the proceeds from the sale of the real estate supports buying new care homes and thus drives the expansion: "some companies prefer to immediately externalise the real estate to reinject the cash in growth"[27]. Real estate sales often involve retail investors, keen to invest their money in a real estate asset with a stable tenant and a favourable tax environment.

In some arrangements, care homes (the "operating" company) were forced to sell and lease back the real estate that they previously owned (**sale-and-leaseback**), thus paying rent for the property they once owned. This adds another stream of payments to the spiralling debt payments owed by the care home operating company. The often artificially high rent is paid to the property owning company and then channeled back to the private equity firm and its investors. **Fees, interest and leasing costs create a constant transfer of money from the care home to private equity firms and their investors.**

Other elements in the toolkit include the use of tax havens and other strategies to reduce the tax bills, including the ability to deduct high interest payments for shareholder loans against taxable profits.[28]

In addition to these aspects of the private equity toolbox, private equity firms do in fact transform the sectors in which they invest. Especially in the care sector, they often follow so-called **buy-and-build strategies**, creating larger and more complex conglomerates of companies, thereby consolidating the care home market. The private equity firms benefit in several ways. First, more consolidated markets often mean a larger control over prices and larger power vis-à-vis public authorities and care insurance firms when negotiating rates for the care of the elderly. Second, a larger care home chain might promise larger returns when the private equity firm "exits", i.e. when it sells the company to another investor: larger companies are often valued at higher multiples of their earnings than smaller companies are. Industry publications explicitly mention the

[27] Fusions & Acquisitions Magazine (07/2020): Ce secteur est pour nous une mega-tendance, 42 (13.08.2021).
[28] Since 2017, this possibility has been restricted in some countries, such as in the UK.

potential for **market concentration** as a strong argument for private equity investments in the care sector.[29]

Private equity firms often employ the same kind of toolbox in their investments. All in all, as this report shows, **debt-leveraged buyouts**, **intra-group loans**, **ownership structures leading to off-shore locations**, and **sale and leaseback** practices (a form of **asset stripping**) can be seen as part of an "explicit strategy to shift costs, socialise risks and privatise the benefits of investing in social care"[30]. Not only do such practices heighten the risks of financial and operational failures, they can also lead to a lack of transparency and accountability, poorer working conditions for staff, lower quality care for residents and potentially higher prices for care.

[29] Frank Knight (2020): European Healthcare - Elderly Care Market (13.08.2021).

[30] Corlet Walker/Druckman/Jackson (2021): Careless finance: Operational and economic fragility in adult social care. CUSP Working Paper No 26. Guildford: Centre for the Understanding of Sustainable Prosperity (13.08.2021). Quoted as "Careless Finance (2021)" from now.

3. GERMANY

3.1. General development of the German care home market

In recent years, many German old-age care homes have been merged and bought by bigger players. Care services in Germany are provided both by non-profit (or charitable) and for-profit care organisations. Amongst the 30 largest providers of care homes in Germany, there are only eight non-profit organisations[31] and growth in the market is largely happening among for-profit groups.

A sector that has been underfunded for years has now met the enormous financing capacities of big financial investors. With an ageing population and a growing demand for care home beds in Germany, many investment funds are expecting golden years for their investments in the sector.[32] In the last few years, German companies from all sectors have become more attractive to investors, jumping to 18% of the European buyout volume.[33]

3.2. Private equity investments in the German care home sector

The German care home sector has become increasingly attractive for financial investors, most notably for private equity funds. Similar to other countries, Germany has a relatively large part (more than 40%) of for-profit private care homes. The rest of the German care home sector is largely run by private non-profit care home providers, public ones represent only a very small share of care homes.

With the introduction of the long-term care insurance in 1995, the presence of private, for-profit care providers increased significantly.[34] With a relatively secure income stream from the quasi-public insurance system, professional financial investors started getting active in the market, especially from the 2010s. For many years there had been around five buyouts per year in the sector, but since 2017 the numbers have risen considerably. **Both in 2017 and 2018, more than 20 German care companies have been bought by private equity firms**.[35] Increasingly, larger com-

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[31] Pflegemarkt.com (12/2020): Die 30 größten Pflegeheimbetreiber 2021 (13.08.2021).

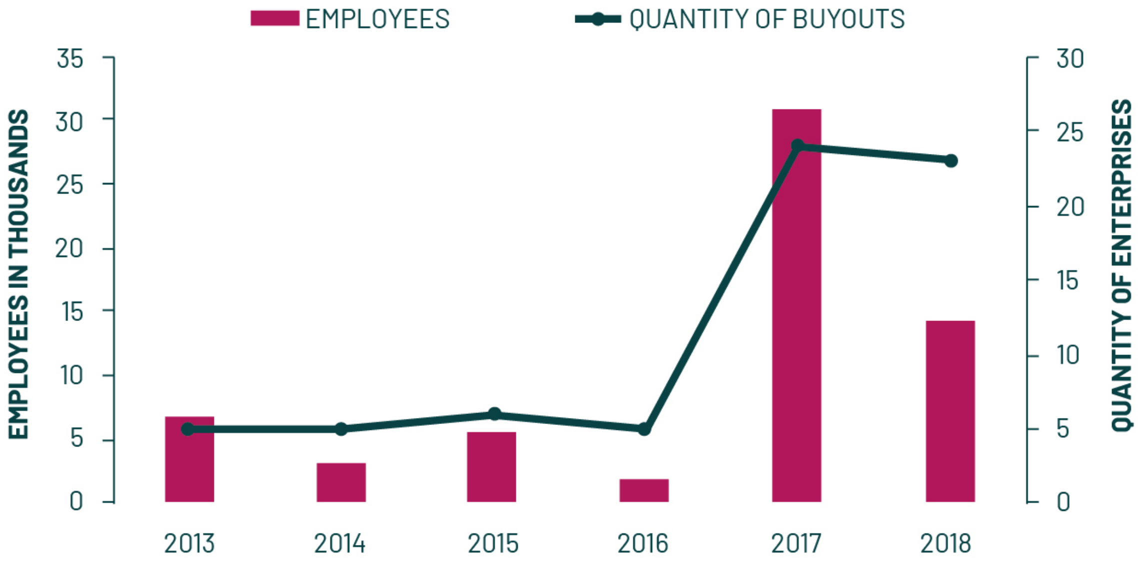
[32] Der Freitag (08/2021): Schwester Heuschrecke (13.08.2021).

[33] PwC (2021): Private equity trend report: Can private equity save the world?, 10 (13.08.2021).

[34] Evans/Scheuplein (2019): Private-Equity-Investitionen im Pflegesektor: Relevanz, Dimensionen und Handlungserfordernisse. Forschung Aktuell, No. 08/2019, Institut Arbeit und Technik (IAT), Gelsenkirchen.

[35] Ibid.

panies have become part of private-equity-owned chains, with the buyouts of chains like Alloheim and Vitanas further consolidating the care market and creating larger conglomerates with thousands of beds each.[36]



Source: Evans/Scheuplein (2019), Private-Equity-Investitionen im Pflegesektor: Relevanz, Dimensionen und Handlungserfordernisse, Forschung Aktuell No. 08/2019

While some care companies have been bought for the first time by private equity funds in the recent years (for instance the Argentum Pflege Holding in 2019 by Trilantic Capital Partners[37] or the Mirabelle Holding in 2020 by Auctus Capital Partners[38]), others have already witnessed secondary or tertiary buyouts – e.g. sales from one private equity firm to another – and have thus undergone a range of re-engineering methods. The continuous buyouts in the German care home sector point to the strategy of **creating larger chains which can then be resold with substantial profits**. For instance, US-based private equity firm Carlyle bought German care home group Alloheim in 2013 for €180 million[39] and sold the company four years later for €1.1 billion.

Through this, German care homes increasingly become part of larger European groups that are private equity owned. Römergarten Residenzen GmbH, for instance, was recently bought by the French Domidep group - itself owned by a US private equity group. The cross-border trend of consolidation and market concentration is likely to continue in the years to come. Wealth flows

[36] Bobsin (2020): Private Equity im Bereich der Gesundheits- und Pflegeeinrichtungen in Deutschland. Hannover: Offizin.
[37] FinanzNachrichten (11/2019): Finanznachrichten: Laufende Fusionskontrollverfahren: Argentum Pflege Holding GmbH (13.08.2021).
[38] Pflegemarkt (11/2021): AUCTUS übernimmt Mirabelle Care (13.08.2021).
[39] Unquote (08/2013): Star Capital sells Alloheim to Carlyle for €180m (13.08.2021).

not only upwards, from carers and care home residents to private equity owners, but it also flows overseas, to investors in the United States, United Kingdom, tax havens and other countries.

Of the fifteen largest German care home groups, only three are non-profit groups. Among the others, **Alloheim, Dorea, Schönes Leben and Vitanas are the largest care home groups with a private equity owner**, all expanding rapidly in the care market. While it is true that private equity firms own an increasing share in the care sector, there are also publicly listed firms that buy into the German care market. French groups Korian and Orpéa have stepped up their activities.[40] Among the two largest care home chains in Germany, one - Korian - is a company listed on the French stock exchange, and the second - Alloheim - is owned by Swedish private equity firm Nordic Capital. In a highly fragmented market, they both have created care home chains with more than 25,000 (Korian) and 20,000 (Alloheim) care places, with Alloheim increasing its care home places at roughly 9% since 2019.[41]

Alloheim

Alloheim is the largest private-equity owned care home provider in Germany. At first glance, Alloheim is run by a holding company out of Düsseldorf in Western Germany. But this company has profit transfer agreements with a holding company called Cidron Atrium whose only shareholder is an entity based in Luxembourg[42]. Alloheim is a care home group with substantial (often negative) media coverage, as scandals of lacking quality of care and Covid-related deaths have accumulated over the past months and years.[43] The group has been **subject to three[44] subsequent private-equity-related buyouts**, which is a rather rare case of continued re-selling of companies by investors. Carlyle, Alloheim's private equity owner from 2013 to 2017, sold the care home group for six times what it had initially paid in 2013. The care home group's last buyout by Swedish firm Nordic Capital in 2017 had an estimated value of more than €1bn[45], making it the largest buyout in the German care home sector to date.

[40] Redler (2021): Unsere Gesundheits - Ihr Profit? Fallstudien zu Union-Busting privater Gesundheits- und Pflegekonzerne und gewerkschaftlicher Gegenwehr. Berlin: Rosa-Luxemburg-Stiftung.
[41] Pflegemarkt (12/2020): Die 30 größten Pflegeheimbetreiber 2021 (13.08.2021).
[42] The company's name is Cidron Kuma 2 S.ä r.l. and it was incorporated in 2017, the year that Nordic capital bought Alloheim.
[43] Cases of Covid19 outbreaks have been linked to the problematic conditions in Alloheim care homes in Bramsche and Bredsted among others (13.08.2021).
[44] After its initial buyout by Star Capital in 2008, the group has been resold to the Carlyle Group in 2013 and finally to Nordic Capital.
[45] Reuters (12/2017): Exclusive: Nordic Capital agrees to buy German nursing home group Alloheim (13.08.2021).

Alloheim's private equity owner Nordic Capital usually claims **double-digit returns** (net internal rate of return) for its funds[46], yet it is hard to receive information on the specific profits that the fund is calculating for its care investments.

Nordic Capital's 2017 buyout of Alloheim was financed with debt worth more than ten times the company's earnings before interest, tax, depreciation and amortisation at the time.[47]

A company once running a mediocre profit back in 2014, Alloheim's parent Cidron Atrium SE is currently (annual report for 2019) running **losses of €138 million per year**, while revenues amount to around **€800 million for 2019**. The debt of the group has been growing considerably over the years, showing instances of debt-pushdowns that are used to finance the rapid expansion of the care home group. The group's negative balance sheet largely increased **due to rising rental costs for real estate (~50% increase from 2018 to 2019)** and rising general operating costs (**roughly 50% increase from 2018 to 2019**).[48]

Another often-used aspect from the private equity toolbox is the use of **depreciations**. Investments in the care home group's growth are written off and thus reduce the potential tax burden of the company. Today, **all real estate complexes that the care chain uses are rented** and it is not possible to receive detailed information about their owners. However, growing expenses of the care group for rents show that parts of patients' contributions involve „leakages" out to real estate holdings with unclear ownership structures.

If Alloheim is continuously loss-making - we might ask how this care home group makes money for its private equity investors? The Cidron holding pays off the debt pile that it acquired over the years. The interest payments of these credit arrangements amount to **€82 million for 2019 (€61.8 million in 2018).** Yearly interest payments alone equal 10% of the care home group's revenues. Of these €82 million yearly payments on interest, roughly half has been accounted for connected companies and thus constitutes interest on **intra-group loans**. The total amount of the group's outstanding debt was €1.3 bn in 2019, of which €834 million were owed to external creditors and thus pose a substantial risk for the company. The group's total outstanding debt exceeds its total yearly turnover. With the group's only shareholder registered in Luxembourg, **this entity of the conglomerate extracts almost all profits generated in Germany**.

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[46] Buyout Insider (01/2018): Nordic Capital nearing final close on Fund IX (13.08.2021). IRR is a problematic indicator to use, as many industry insiders criticize it for inflating the returns of private equity funds and under-estimating the fees and costs of private equity firms, see McKinsey (2004): Internal rate of return: A cautionary tale (13.08.2021).
[47] Reuters (10/2017): Strong private equity interest in German Alloheim sale -sources (13.08.2021).
[48] Cidron Atrium SE (2020): consolidated financial statements for the financial year 01.01.2019 until 31.12.2019, through Bundesanzeiger.

Dorea

Our second German case is the care home group Dorea. Here, we look at a company that underwent two private equity buyouts - **one in 2015 by Frankfurt-based Quadriga Capital** and a **second buyout in 2018 through French Creadev/maisons de famille**.

During the private equity investors' involvement, **the company turned into a debt vehicle**. Starting in 2016 with a consolidated loss of €2.5 million, the Dorea holding company suffered €10.4 million losses in 2017 and a staggering €70.2 million in 2019.[49] While turnover increased slowly, the group's losses have increased with a remarkable speed. Again, this does not mean that investors did not reap neat profits from this care home group.

From 2016 to 2017 alone, Dorea's calculated **interest payments for credit from its shareholders roughly quadrupled** from €375.000 to €1.2 million.[50] In the year before its sale to its new French investors, the group had liabilities towards Luxembourg-based companies DOREA Beteiligung S.à r.l. of €18 million and two credit arrangements with Quadriga Capital IV First Holding II L.P. of €10 million.[51] These direct credit arrangements with offshore shareholders have not been mentioned since the second buyout of the group. However, in 2019, the interest payments to connected companies amounted to €4.7 million.[52]

Like in the cases of Alloheim and Vitanas, the Dorea holding has been continuously buying new care home facilities all over Germany, to obtain a larger market share. The holding **can claim most of its new acquisitions as investments that depreciate over time** and can thus reduce the total amount of its taxable income. The continuous expansion of financial investors thus decreases their tax burden even further.

[49] See consolidated financial statements for financial years 2016, 2017 and 2019, through Bundesanzeiger.
[50] Dorea Holding GmbH (2018): Consolidated financial statements for financial year from 01.01.2017 to 31.12.2017, through Bundesanzeiger.
[51] Ibid.
[52] Dorea Holding GmbH (2020): Consolidated financial statements for financial year from 01.01.2019 to 31.12.2019, through Bundesanzeiger.

Vitanas

Vitanas is the fifth largest private-equity run care home group in Germany. It was founded in 1969 in West Berlin. In the mid-2000s, Vitanas was bought by a German facility-management group and has recently received private equity investments that have changed its business model. Vitanas is still a rather small care home provider (~5,400 beds), yet we can see similar dynamics to the much larger Alloheim group.

In 2017, the Vitanas group was **bought by US-based private equity group Oaktree Capital**. In a presentation to its investors, L.A. based Oaktree Capital claims to realize a yearly average **gross IRR (internal rate of return) of 13% for its investors.**[53] Through profit transfer agreements, all profits from individual care homes are sent to a Berlin-based parent company, Vitanas AcquiCo GmbH. Yet, the "highest" parent in the group is - yet again - a **firm based in Luxembourg**.[54]

Despite regular income, the entire company has ended up, as with Alloheim, making **substantial losses**. The company's auditors, Ernst & Young, suggest that the company is **overindebted**, though not insolvent.[55] Vitanas' total outstanding debt to "related companies" added up to roughly €42 million in 2019, **equalling a good 18% of the yearly revenue of the company**. Vitanas has only recently been bought by a private equity firm and is thus still in a relatively early stage of private equity re-engineering. Remarkable in Vitanas' balance sheet are the increases of **debt owed to related companies** (2018: equivalent to 14% of turnover; 2019: 18% of turnover) and of expenses for rent **while simultaneously its salary payments have been decreasing**.

Its annual report states that after the sale of the Geesthacht facility, all of **Vitanas' real estate facilities are leased, rather than owned**, which forces the group to pay rent in future.

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[53] Oaktree (2019): First Quarter 2019 (13.08.2021).
[54] The firm's name is "OCM Luxembourg EPF IV Vitanas TopCo S.à r.l."
[55] Vitanas AcquiCo GmbH (2021): Consolidated financial statements for financial year from 01.01.2019 to 31.12.2019, through Bundesanzeiger.

3.3. Results for workers and the quality of care

Care homes have been among the main hotspots of Covid 19 infections in Germany,[56] and care workers have been the group in Germany with the highest chance of getting the virus.[57] Many care homes made headlines with high numbers of patients who became infected or died, and in fact every third Covid19-related death in Germany happened in an elderly care home. Care is among the lowest-paid employment sectors in Germany, with 58 % of old age care workers earning a wage below the OECD low pay threshold.[58] Interestingly, authorities have not yet raised systematic concerns about whether or not care homes are owned by private equity funds or local providers.

Even though there are not yet any good comparative studies on Covid19 infections in care homes of different ownership types, there are indications that for-profit care homes (and private-equity owned amongst them) apply higher pressure on care workers and lower the quality of their care towards patients.

Studies in Germany have generally found a lower quality of care in for-profit care homes in almost all categories under scrutiny[59]. When looking at Alloheim, Vitanas and Dorea, there have been **substantial allegations in all three groups of high workload and low quality of care**. In 2016, for example, the health ministry in North Rhine-Westphalia stated that there had been "difficulties in several Alloheim Group facilities that we consider serious"[60]. Since then, numerous Alloheim care homes all over Germany have been criticized for problematic working conditions and a lacking quality of care.[61] Many protests against low-quality care and poor work conditions have taken place at the communal level. In 2018, the city of Lingen initiated proceedings against the managers of the local Alloheim after they were accused of deficiencies in the care of the elderly.[62] As a result, the conditions at the home were criticised, but the two managers were eventually acquitted.[63]

In many cases, care home staff are overworked, and shortages of workers are filled up with **agency workers**. Investigations by German media outlet Frontal21 highlighted allegations of

[56] Robert-Koch-Institut (2021): Täglicher Lagebericht des RKI zur Coronavirus-Krankheit-2019 (13.08.2021).
[57] Ärztezeitung (03/2021): Pflegeheime bleiben Hotspot der Corona-Pandemie (13.08.2021).
[58] Ludwig & Evans (2020): Löhne in der Altenpflege: Helferniveaus im Spiegel von Fachkräftesicherung und Lohnverteilung. Ein Beitrag zur Lohn- und Tarifdebatte, Forschung Aktuell No. 11/2020.
[59] Geraedts et.al. (2016): Trade-off between quality, price, and profit orientation in Germany's nursing homes. Zeitschrift für Evidenz, Fortbildung und Qualität im Gesundheitswesen, 112, 3-10.
[60] Stuttgarter Zeitung (02/2018), Weitere Alloheim-Einrichtungen haben Probleme (13.08.2021).
[61] StadtSpiegel (06/2021): Halterner Senioren als Opfer von Rendite-Jägern? (13.08.2021).
[62] Deutschlandfunk Kultur (02/2020): Big Business auf Kosten der Kranken (13.08.2021).
[63] NOZ (01/2019): Alloheim in Lingen: Bußgeldverfahren gegen zwei Geschäftsführer (13.08.2021) & NOZ (06/2019): Freispruch im Verfahren gegen die Alloheim-Geschäftsführer (13.08.2021).

enormous work overload and substantial problems in hygiene and the quality of care, especially in **Alloheim** facilities. For **Vitanas**, there have been allegations of overworked care workers and poor security mechanisms during the Covid19 pandemic.[64] There have been similar accusations against facilities of the **Dorea** group.[65] The holdings and owners of the care home groups often claim that these cases are incidents of individual care homes and not a systematic pattern. However, the strong financial pressure on these three care home chains means that mistreatment and work overload are much more likely.

Currently data for German care homes do not permit a thorough audit of care homes, let alone staffing numbers, despite occasional **quality controls** by health insurance companies like the AOK.[66] Since the end of 2019 (with a COVID-19 interruption), new data indicators are being put together in Germany, together with a new audit procedure, which is regularly and systematically reviewed by the medical service of the health insurance funds. In addition to the staffing numbers, the actual health status of the residents, quality of care and the equipment available in the facilities are now also being actively checked.

[64] Nordkurier (01/2021): Wie schlimm geht es im Ueckermünder Vitanas Pflegeheim wirklich zu? (13.08.2021)
[65] Nordwest Zeitung (09/2020): Heim will nach Vorwürfen Kommunikation verbessern (13.08.2021)
[66] Tagesschau (06/2021): Sterblichkeit in Pflegeheimen stark angestiegen (13.08.2021)

4. FRANCE

4.1. General development of the French care home market

Like in other countries, the French care home market[67] has become financialised in the wake of the growing privatisation of care home groups.[68] Previously France relied on public and non-profit care homes, but from the 1980s the French healthcare regulator created a market for care homes that put private, public, and non-profit care homes in competition for patients and funding. This change provoked the **entry of the private sector in the care home market**. Since then, the private care home sector has seen two main phases of development in France. First, before the mid-2000s, thanks to the favourable action by the healthcare regulator, numerous care home operators have emerged in the country. The for-profit private sector now accounts for 20% of all care home beds, or 125 000 beds[69]. From the late 2000s, however, the sector entered a new phase of consolidation. The healthcare regulator has reduced the number of licenses for new care homes and put pressure on the public funding of beds, encouraging the sector to consolidate. The **consolidation** became a strong investment rationale for private equity funds, which saw opportunities in acquiring and merging several small care home companies, to benefit from economies of scale, higher financial valuations for larger firms, and possible market power. Among these private sector beds and following the wave of consolidation, a **large majority (more than 70 000 beds) of care home beds are now owned by the top 5 care home groups** (Korian, Orpéa, DomusVi, Domidep, Colisée). These groups are all owned by financial investors, either through the stock market or through private equity funds. The three largest French care home groups are also among the largest European care home providers and increasingly operate across borders.[70]

4.2. Private equity investments in the French care home sector

Private equity funds have invested extensively in the French care home sector. Among **the top five French care home groups, three are currently owned by private equity funds (Colisée, Domidep, DomusVi**). Private equity funds also invest in smaller or regional care home networks beyond the top 5, using these investments as platforms for further acquisitions (so-called "buy-and-build operations"). One example of these smaller buyouts was the acquisition of Vivalto Vie

[67] In the French part of the report, care homes are understood as établissements d'hébergement pour les personnes âgées dépendantes (EHPAD), a legal category that includes most French regulated care homes.
[68] Delouette/Nirello (2016): Le processus de privatisation du secteur des établissements d'hébergement pour personnes âgées dépendantes. Journal de gestion et d'économie médicales 2016/7 (Vol. 34), 387-408.
[69] Les Echos (01/2017): Pourquoi les Ephad [sic] doivent avoir une croissance « non core » (13.08.2021).
[70] Statista (2020): Largest European care home operators in 2020, by number of facilities (13.08.2021).

by Amundi PEF in February 2020. The group owns only 2200 beds mostly in the West of France and in Spain. Amundi bought Vivalto Vie to buy and integrate other small networks of care homes in Western France, the Paris region, and in Spain.

Private equity-owned French care homes are particularly keen to buy similar groups abroad, thus expanding to other countries in Europe, Asia, and America. In the German care home sector, too, there is a growing presence of French care chains and investors. Thanks to its private equity owners, French group DomusVi recently bought or opened subsidiaries in Chile, Spain, and China. These successive buyouts were accompanied by strong increases in the financial value of the care home groups, due both to the build-up operations and to the increase in the valuation of the general sector. For instance, **DomusVi was bought for around €640m in 2014 by PAI Partners and sold back to ICG for €2.3bn in 2017**.[71]

Investigating the buyouts of DomusVi, Domidep, and Colisée reveals that these **three historically profitable groups were turned into strongly indebted companies,** from the moment of their first buyout.

DomusVi

DomusVi, the third largest French care home company, recently underwent its second successive buyout by private equity investors. First, in 2014, it was bought out by PAI Partners; then in June 2017 it was bought out by the fund ICG. Since its first buyout, DomusVi has **strongly increased its size through the acquisition of competitors** in France (such as Residalya in 2019, the ninth largest care home group at the time) and abroad (in Latin America, Portugal, and Spain). Very recently, DomusVi acquired Advita, one of the leading German housing care companies focussing on housing and integrated outpatient care for the elderly.[72]

Like all other examined cases, **DomusVi** became strongly indebted after its private equity buyout. In 2020, DomusVi carried a **€969m pile of debt**, equivalent to **more than 7 times its EBITDA (€117m[73]). Its debt tripled since its second buyout in 2017,** when it was €388m.

The care home group's debt has been held in holding companies in low-tax jurisdictions. The legal structure of DomusVi after its buyouts has been detailed by journalists Maxime Rehany and Téo Cazenaves and healthcare activists SAS Madrid.[74] It includes the **holding of the care homes**

[71] PAI Partners (2021): Investments (13.08.2021).
[72] DomusVi (07/2021): DomusVi Group acquires advita (13.08.2021).
[73] DomusVi (2017): Press Release (13.08.2021).
[74] Le Media (2020): Révélations - Ehpad et Assurances Vie: Paradis Fiscaux, Opacité et Complicité d'État (16.08.2021) and SAS Madrid (2020): DomusVi a Jersey (16.08.2021).

through a succession of Jersey and Luxembourg companies. The investment fund owning DomusVi, ICG Europe, is domiciled in Jersey, a jurisdiction with a low tax rate, an opaque fiscal system, and a corporate law favourable to investment funds. ICG Europe invested in DomusVi through a **Luxembourg-based holding company** called Topvita Investment. The Luxembourg company holds both the equity of the care home group, and the financial debt that was contracted to acquire the group. In the case of DomusVi, as is customary in leveraged buyout operations, Topvita Investment has been provided with a small amount of capital from its investors, and it has **borrowed a large undisclosed amount of debt from banks**. At the end of 2017, the net debt of DomusVi amounted to €900m[75], of which parts were owed to intra-group holding companies like Topvita. Within the complex corporate structure, the care home group borrows money from Topvita in Luxembourg. The group thereby owes a continuosly increasing amount of debt to its Luxembourg parent, currently €570m **with a high interest rate (from 9% to 11%)**.[76]

The debt leveraging of care home groups goes hand in hand with top managers' incentives, through so-called **"management packages"**. In the case of DomusVi, the company is currently jointly held by Luxembourg-based Topvita Investment (21.5%), SIDVH SAS (72.4%) and Mancare I, II and III (5.9%).[77] Topvita Investment is ultimately held by the private equity fund ICG: It holds part of the equity and has provided part of the debt of DomusVi.[78] SIDVH is the personal holding company of DomusVi's founder, Yves Journel, although he has recently opened it up to outside investors such as French and Emirati sovereign wealth funds BPI France and Mubadala. Mancare SAS is a holding group that is partly held by top managers of DomusVi and its foreign subsidiaries, such as the founder of its Spanish, Portuguese, and Chilean branch Geriavi SAU, Josefa Fernandez Miguélez. These schemes end up turning care home top managers into wealthy individuals: **Yves Journel, the founder of DomusVi, amassed a net wealth of around €750m**, while Patrick Teycheney, the founder of Colisée that benefitted from similar schemes, has built a €300m personal fortune.

But the enrichment of top managers represents only a small portion of the financial flows that are extracted from indebted care home groups. **In 2 years, from March 2017 to March 2019, the Luxembourg holding Topvita Investments charged €105m in interest rates from DomusVi**.[79] The operational earnings of DomusVi allows it to account for the interest of its debt and portions

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[75] DomusVi (03/2018): Press Release (13.08.2021).
[76] LeMedia (06/2020): Révélations - Ehpad et Assurances Vie : Paradis Fiscaux, Opacité et Complicité d'État (13.08.2021).
[77] Corporate accounts of Kervita for the year 2020.
[78] LeMedia (06/2020): Révélations - Ehpad et Assurances Vie : Paradis Fiscaux, Opacité et Complicité d'État (13.08.2021).
[79] Ibid.

of its principal, allowing it to contract new debt to further extend with international acquisitions. This is the main driver of the growth of the value of the group through its successive leveraged buyout operations. Although the amount of net debt remains stable, the size of the group and its value increase, allowing the private equity fund that holds DomusVi to make a strong profit when it sells the group in the future. Between its second buyout of DomusVi in 2014 by PAI Partners, and its sale to a new private equity investor in 2017, the financial value of the group increased from €650m to €2.3bn. This resulted in a huge gain for PAI Partners, which was then redistributed among its investors and fund managers.

Colisée

Colisée, the fourth largest company in the French care home sector, has recently undergone its **third successive buyout by a private equity fund**. It was bought out by the Swedish infrastructure fund EQT in August 2020[80], after having been bought out by the British fund IK Investment Partners in April 2017, and the French fund Eurazeo in July 2014. The EQT infrastructure fund, which owns Colisée, is run out of Luxembourg.[81]

Already during its ownership by Eurazeo, between 2014 and 2017, Colisée performed **numerous acquisitions of care homes**, increasing the number of its care homes from 45 to 270[82] (including 104 in France[83]), again a **classical buy-and-build-strategy** that is supposed to generate higher market shares for the chain. In recent years, the group has been expanding further, with cross-border investments in Spain and Germany. The French group is now among the Top10 care home providers in Spain and cooperates with real estate investors to split the operation of care services and real estate.[84]

However, the continuous expansions come at a cost. In **2020, Colisée had a net debt of €900m, which amounted to more than 6 times its EBITDA (€140m).[85]** This is three times the amount of debt it had at the beginning of its second buyout in 2015, when it was bearing only €310m.[86]

[80] EQT Group (08/2020): EQT Infrastructure enters exclusive negotiations to acquire a majority stake in Colisee – a European leader in elderly care (13.08.2021).
[81] SEC (2021): EQT Infrastructure IV (13.08.2021).
[82] LesEchos (08/2020): Le fonds suédois EQT prend le contrôle de Colisée, le numéro quatre français des Ehpad (16.08.2021).
[83] Cap Retraite (2021): Le groupe Colisée (16.08.2021).
[84] Global Legal Chronicle (03/2021): Colisée and Threestones' Acquisition of a New Nursing Home in Oviedo (16.08./2021).
[85] LesEcho (03/2020): Ehpad: IK ouvre la porte à sa prochaine sortie de Colisée (16.08.2021).
[86] SilverEco (2015): Le Groupe Colisée renforce sa capacité financière pour accélérer son développement (16.08.2021).

Domidep

Domidep, the fifth largest group of French care homes, **was first bought out by a private equity fund in 2007**, involving Azulis Capital and BNP Paribas Développement. It was then sold to the insurance branch of the Crédit Agricole, Predica, in 2013.[87] The **care home group was then bought again by the US private equity fund I Squared in October 2019**. During these successive buyouts, Domidep has played the role of a **platform to acquire smaller care home groups**: the size of Domidep has doubled between 2014 and 2021 through external acquisitions (going from less than 40 to more than 100 in France, and 20 care homes abroad).[88]

The use of debt played an important role in the acquisition of Domidep. **Its 2019 buyout by I Squared was financed through €412m of debt**, almost one and a half times its annual sales (€300m) and more than 6 times its EBITDA at the time of the buyout (€75m). This means that it would take 6 years for the group to reimburse all debt it was made to carry, if it used all its earnings for debt reimbursement. As in other private-equity owned care home operations, there are **indications of large intra-group loans that the care provider is servicing**. For instance, the group is servicing interest on a €385m-loan that it received from its parent - Cube Healthcare Bidco SAS.[89]

4.3. Results for workers and the quality of care

For-profit care homes in France suffer from degraded working conditions compared to public and non-profit ones. The **staff-to-resident ratio is significantly lower in the private care home sector** (49,3 staff per 100 patients in 2018) than in the public sector (64,1 staff per 100 patients)[90], meaning that employees in such care homes have an increased workload. According to Cécile Martin, an economist specialised in the French care home market, this understaffing is largely related to "the **lack of transparency over the staff-to-patient ratio in care homes**"[91]. Staff remuneration is also more unequal in the private sector than in the public sector. A generally better remuneration of highly-skilled staff like medical doctors in the private for-profit sector is countered by a worse remuneration of low-skilled staff like nurses and other technical agents.[92]

[87] Géroscopie (06/2016): Les leaders accélèrent (13.08.2021).
[88] Les Echos (01/2019): Domidep se prépare à animer le large cap (16.08.2021) & Domidep (2021): Qui sommes-nous? (16.08.2021)
[89] Domidep (2020): Depot des Comptes Annuels (11/2020), p. 23.
[90] L'Express (04/2018): Ehpad privés: plus chers, pas mieux (16.08.2021).
[91] Martin (2014): "Concurrence, prix et qualité de la prise en charge en EHPAD en France". Doctoral Thesis Université Paris-Dauphine, p. 165.
[92] CNSA (2019): La situation des EHPAD en 2017, 33 (16.08.2021).

Although their managers and investors amassed significant fortunes, the **situation of care home employees has deteriorated after private equity investments in France**. Since the mid-2010s, regular strikes have been happening in private equity-owned care homes, including strikes in the care homes of Domidep[93] and DomusVi[94] in 2020-21. Trade unionists have denounced increased employee workloads:

> "employees that are absent or on holidays are not replaced, this constantly increases our workload. Understaffing results in a general fatigue, and physical and moral burnouts"[95].

Numerous testimonies highlight the degraded working conditions in private equity-owned care homes: for instance, a trade unionist evoked **"deplorable" working conditions** in a DomusVi care home located in Bordeaux, leading to the resignation of several employees and the departure of some patients.[96] This high workload gets translated into numbers, as care homes have been found to have the highest absenteeism rate in the French healthcare sector: employees are absent of their work for an average of 12% of their time[97], meaning that they are on leave (including sick leave, but excluding normal holidays) more than 32 days per year. To enforce restrictive financial policies, the managers of these care homes also repress trade unions. Care home managers at DomusVi were accused of paying employees to report forbidden behaviours by trade unionists, so that they could fire them.[98]

Links can be found between private equity ownership and a reduced **quality of care** in French care homes, with understaffing a central concern. Although some for-profit care homes try to differentiate themselves through quality, they tend to favour the quality of the real estate environment to the quality of care itself. As Cécile Martin explains, based on a quantitative analysis of the French sector, **"for-profit care homes... seem to sometimes develop the quality of their real estate at the expense of staffing"**[99]. Numerous activists and trade unionists have established a link between understaffing and what they call "institutional mistreatment" of patients. They claim that the **staff-to-patient ratio is so low that employees are forced to provide degraded care that amounts to mistreatment**. Several strikes in the Domidep and DomusVi net-

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[93] Ouest France (01/2021): Rennes. Les personnels de l'Ehpad des Roseraies en grève (16.08.2021).
[94] L'Union (07/2020): Des salariés des Jardins de Médicis sont en grève. Ils disent être à bout (16.08.2021).
[95] Ouest France (01/2021): Rennes. Les personnels de l'Ehpad des Roseraies en grève (16.08.2021)
[96] Rue89 Bordeaux (04/2016): A l'Ehpad des Carmes, les aides-soignantes ne battent pas en retraite (16.08.2021).
[97] Géroscopie (2018): L'absentéisme, un fléau mais pas une fatalité (16.08.2021)
[98] l'Humanité (10/2020): Korian, DomusVi: dans les Ehpad, la répression antisyndicale bat son plein (16.08.2021).
[99] Cécile Martin (2014): Concurrence, prix et qualité de la prise en charge en EHPAD en France, Thèse pour le doctorat en Sciences Economiques, p. 166.

works occurred between 2016 and 2020, that led employees to denounce understaffing and degraded care. A trade unionist in a care home in Rennes (Domidep) noted that "working conditions are being constantly degraded and this results in institutional mistreatment"[100] of patients. Another trade unionist in Bordeaux (DomusVi) mentioned how understaffing "can be almost compared to mistreatment"[101]. In the latter case, an employee of the Bordeaux care home said that understaffing resulted in patients **receiving on average less than 20 minutes of care per day, which he said was "inhumane"**. Another reason for the degraded care situation is the lack of medical devices in for-profit care homes. As another employee of the Bordeaux care home notes, "there is an issue with medical devices, we are always short of drains and towels". Following a strike in a care home located next to Nice (DomusVi), another employee noted the lack of other kinds of equipment, such as patient lifting apparatus, shower chairs, and efficient cleaning products.[102]

This situation translated into difficult situations in several private equity owned care home groups during the COVID-19 pandemic. DomusVi was strongly affected by the pandemic in several countries, with Spanish newspapers denouncing the role of the group in the improper management of the pandemic and establishing the "death map" of the group.[103] 150 elderly people died in eight of its residences.[104] DomusVi facilities in France were also struck by the pandemic, as media reported several cases of its care homes being overwhelmed by the first wave. In a Marseille DomusVi care home, the virus spread to the point that more than half of its staff was under sick leave due to the epidemic. In another DomusVi care home in Toulouse, nurses fought with their managers over the lack of personal protective equipment, including masks, gloves, and protective gowns.[105]

[100] Ouest France (01/2021): Rennes. Les personnels de l'Ehpad des Roseraies en grève (16.08.2021).
[101] Rue89 Bordeaux (04/2016): A l'Ehpad des Carmes, les aides-soignantes ne battent pas en retraite (16.08.2021).
[102] Nice Matin (05/2019): Manque d'effectif et de matériel, économies sur la nourriture, conditions d'hébergement... Une dizaine d'employés de l'EHPAD de Gorbio en grève jeudi (16.08.2021) .
[103] Info Libre (07/2021): El 'mapa de la muerte' de la multinacional DomusVi (16.08.2021).
[104] Ibid.
[105] See Actu Toulouse (07/2020): Toulouse. Deux infirmiers licenciés pour avoir réclamé des masques à leur direction (16.08.2021).

5. UK

5.1. General development of the UK care home market

In the UK, just like in France and Germany, adult care can be described as a quasi-market, where care is provided by a mix of private, voluntary and public players. The **quasi-marketisation** of adult social care in the UK began in the 1980s, and really took off with Margaret Thatcher's Conservative Government, but was also encouraged later on by New Labour governments.[106] The National Health Service (NHS) and Community Care Act 1990, in particular, devolved long-term care funding responsibility to local authorities, and led to a tendering of social care to for-profit providers as well as to non-profit, voluntary and public providers. As a result of this "partial privatization of the NHS"[107] private **for-profit companies have come to dominate the care sector**. By 2019, private players owned 84% of care home beds in the UK[108], with just 13% of beds provided by the voluntary sector and 3% by the public sector.[109]

In 2021, the five largest care home providers – HC-One, Four Seasons, Care UK, Barchester and Bupa – control about 11% of the UK market and together cover a total of 50,000 beds[110], while numerous much smaller providers are in charge of the bulk of long-term adult care.[111] **Of the five, HC-One and Care UK are owned by private equity firms, Four Seasons has been effectively controlled by US hedge fund H/2 Capital since it went into administration in 2019,** and Barchester is owned by a group of 50 investors, including three Irish billionaires who own majority shares. Only Bupa is a private company that reinvests all its profits into the business.

According to researcher Vivek Kotecha[112], the profit-oriented investment in care home groups, involving asset stripping practices and overly complex ownership and debt structures, means that **about 10% of the sector's total UK annual income of £15bn have been leaking out** "in the form of rent, dividend payments, net interest payments, directors' fees, and profits before tax"[113].

The three cases selected for the UK (Southern Cross, Four Seasons and HC-One) are emblematic of the issues raised by critics of financialisation, and **exhibit three stages in the "typical failure**

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106 Scourfield (2011): Caretelization revisited and the lessons of Southern Cross, Critical Social Policy, 32(1), 137-148.
107 Harrington et.al. (2017): Marketization in Long-Term Care: A Cross-Country Comparison of Large For-Profit Nursing Home Chains. Health Services Insights, June 2017.
108 Blakeley/Quilter-Pinner (2019): Who Cares? The financialisation of adult social care (16.08.2021)
109 This is a major shift from the 1980s, when over 60% of beds were run by local authorities or the NHS: Bayliss/Gideon (2020): The privatisation and financialisation of social care in the UK (16.08.2021).
110 Statista (2019): Leading care home operators in the United Kingdom (UK) in 2019, by number of beds (16.08.2021).
111 Walker (2021): Care homes - Why investment firms can be bad owners (16.08.2021).
112 Kotecha (2019): Plugging the leaks in the UK care home industry. Strategies for resolving the financial crisis in the residential and nursing home sector. London: CHPI (16.08.2021).
113 Kotecha (2019): 4.

journey" of large private equity owned care home groups. The three groups followed similar trajectories: they were bought (sometimes several times successively) by private equity firms and underwent a complex restructuring, and **all encountered growing debt difficulties**. This led Southern Cross to eventually go bankrupt in 2011, and Four Seasons to go into administration in 2019. HC-One, the second largest care home operator in Europe by number of facilities[114] and the first in terms of revenue (€3.8 billion) in 2020[115], has been facing financial difficulties for several years now, and has been for sale since 2018[116]. It remains to be seen whether a recent loan and equity injection[117] will help HC-One escape the fate of its predecessors.

5.2. Private equity investments in the UK care home sector

In the past two decades, private equity firms have increasingly targeted the healthcare and adult care sectors in the UK. **Between 2005 and 2008 there were 370 private equity deals in the UK healthcare sector, worth a total of £33.3bn.**[118] Below we give the examples of Southern Cross, Four Seasons and HC-One, which each underwent several rounds of buyouts and exits by investors. Since Southern Cross is a historic case of a private equity buyout and the subsequent insolvency of a care home chain, it is useful to document the private equity toolbox in particular detail here.

Southern Cross

Southern Cross was founded in 1996 by businessman John Moreton.[119] By 2002, it had become the third largest adult care homes company in the UK. That year, Southern Cross' management - backed by venture capital firm West Private Equity and Healthcare Investments Limited - **led a buyout for £80m**[120]. The new investors continued to expand the business and, in 2004, sold it for £162 million — **double the price they had paid for its acquisition just two years prior** — to Blackstone Capital Partners IV[121], an affiliate of US-based private equity company Blackstone.

Before its collapse in 2011, Southern Cross provided great profits to the individuals who managed to leave the sinking ship on time. Philip Buscombe, Chief Executive of West Private Equity, said

[114] Statista (2020): Largest European care home operators in 2020, by number of facilities (16.08.2021).
[115] Statista (2019): Largest European care home operators in 2019, by revenue (16.08.2021).
[116] Financial Times (05/2018): Britain's biggest care home business for sale (16.08.2021).
[117] Senior Housing News (04/2021): Welltower Provides $750 Million in Re-Cap of U.K.-Based Provider HC-One (16.08.2021).
[118] Financial Times (05/2008): Four Seasons tries to repay debt (16.08.2021).
[119] Guardian (06/2011): The rise and fall of Southern Cross (16.08.2021).
[120] Ibid.
[121] Blackstone (09/2004): Blackstone Acquires Southern Cross Healthcare (16.08.2021).

that the sale of Southern Cross in 2004 allowed the firm **"to return substantial sums to [its] investors"**[122]. Blackstone exited the game just on time before the global financial crisis hit. When it sold its remaining stake in Southern Cross in 2007, the company was valued at about £770m[123], **allowing Blackstone to make an estimated fourfold return on its initial investment**. That same year, three top managers at Southern Cross left, after profiting from "personal windfalls" of £36.6 million from share sales. Then chief executive Philip Scott alone made £11.1 million[124]; Colvin, non-executive chairman, reportedly made £6.6m[125].

In addition, the very conditions that led to the collapse of Southern Cross also provided an opportunity for more profit-making by other private equity firms.[126] Firms such as HG Capital, Duke Street and Blackstone itself began circling Southern Cross, hoping to buy parts of the company at heavily discounted prices due to its ongoing financial problems. As it turned out, Southern Cross did not manage to sort out the financial woes that some of its top managers and owners had created. **Most of Southern Cross' facilities were sold to Four Seasons (making it the largest care homes chain in the UK at the time), and a third was purchased by HC-One Limited**. As a result, two of our case studies are based on remnants of the third one.

The private equity toolbox at Southern Cross

When Blackstone took over Southern Cross in 2004, it reorganised the activities of the group (which by that point operated 162 care homes)[127] and those of another recently-acquired nursing home company, Nursing Home Properties (NHP), **so that the latter would now own most of the real estate facilities and Southern Cross would provide care services and pay rent to NHP**.[128] Further acquisitions followed, turning Southern Cross into the UK's largest care home operator.[129] In June 2008 however, Southern Cross found itself unable to meet a £46 million debt repayment deadline and was forced into emergency talks with banks. This was because "the **heavily indebted group** [had] been unable to sell a number of property assets" on which it was counting "to repay costly bridging loans used to fund a rush of care home purchases"[130]. In short, it was a game

[122] Ibid.
[123] BBC (06/2011): Southern Cross care homes: GMB urges government support (16.08.2021).
[124] ThisIsMoney (04/2018): Southern Cross duo turn their sights on CCTV for care homes with new firm Care Protect (16.08.2021).
[125] Guardian (09/2008): Care home chief quits after speculation backfires (16.08.2021).
[126] Scourfield (2011).
[127] Guardian (06/2011): The rise and fall of Southern Cross (13.08.2021).
[128] BBC (06/2011): NHP controls fate of Southern Cross (13.08.2021).
[129] Guardian (06/2011): The rise and fall of Southern Cross (13.08.2021).
[130] Guardian (07/2008): Nursing homes: Southern Cross in emergency talks over £46m loan deadline (13.08.2021).

of debt-fuelled buying to sell and selling to buy, which was highly profitable for as long as borrowing was cheap and the real estate bubble was growing i.e. market values of properties were rising.[131]

The **vicious circle of hyper leveraging** (indebting the company) and **asset stripping** (e.g. selling real estate properties) made Southern Cross vulnerable to sharp rent and debt increases and to falling real estate market values. Southern Cross' woes aggravated in subsequent years. By 2011 Southern Cross was struggling to pay rent to its various landlords who now included international financiers, venture capitalists, private equity firms as well as other corporate care providers. GMB, a UK care union, claimed that rents paid for the 750 Southern Cross care homes were much higher than they should have been and that "**£100m per year of mainly public money** intended to pay for the proper care of the elderly **was being siphoned off to pay sky high rents instead**"[132].

The fact that Southern Cross did not own its properties, and the complexity of the ownership and rent arrangements gave landlords a lot of power. Researcher Amy Horton found that during the collapse of Southern Cross, "landlords refused to engage with government efforts to ensure continuity of care for residents" [133], and that governments struggled to even "identify the property owners due to a lack of transparency"[134], meaning that the fates of thousands of vulnerable residents were largely in the hands of mysterious property end-owners.

Four Seasons

Four Seasons changed ownership four times in the 2000s, in a "pass-the-parcel game", where "each seller made a profit because the next buyer was prepared to pay more and cover the cost by issuing debt"[135]. Four Seasons was still a relatively small care home chain based in Scotland when it was first bought by a private equity firm - Alchemy Capital - in 1999. In 2016, 17 years and **several buyouts later, the group struggled and faced threats of insolvency**, while its **directors' pay totalled £2.71m**[136]. In 2017, as the financial situation worsened, five company directors were paid a total of £2.04m.[137] In late 2017, Four Seasons was unable to meet a debt payment deadline.

[131] Part of the issues - and the line of defense used by Southern Cross - was that "occupancy levels" were "lower than anticipated" and that under-funded local authorities were paying lower fees to care homes in the knowledge that the supply of beds exceeded demand, all in all resulting in lower revenues for Southern Cross. However, the financial engineering built around the care company was also to blame.
[132] EPSU (2012): Summary Information on "Southern Cross Case and Social Care Market in the UK (13.08.2021).
[133] Horton (2017): Financialisation of Care: Investment and organising in the UK and US. University of London, 114.
[134] Ibid.
[135] Burns et.al. (2016): Where does the money go? Financialised chains and the crisis in residential care. Wales Institute of Social and Economic Research and Data: CRESC Public Interest Report, 7.
[136] Financial Times (02/2020): Private equity and Britain's care home crisis (13.08.2021).
[137] Ibid.

Its largest creditor, H/2 Capital Partners, a US hedge fund run by billionaire Spencer Haber, effectively took control of the business. However, restructuring efforts were not successful **and Four Seasons went into administration in April 2019**[138]. At that time it operated 322 homes housing 17,000 residents and employing 22,000 people.[139] By February 2020, over 320 Four Seasons homes had been taken over or closed.[140]

The 2006 Four Seasons buyout by Three Delta, backed by Qatari sovereign wealth fund Qatar Investment Authority (QIA), was a perfect example of a highly leveraged buyout. **The £1.47 billion acquisition - 14 times the company's annual earnings before interest, tax, depreciation and amortisation - was 80% financed by debt, some of which was securitised**[141]. A consortium of 30 banks, headed by Royal Bank of Scotland, lent about £1.5 billion[142] to Three Delta to finance the acquisition. By **2008 Four Seasons had overall external debt of £1.5 billion and an annual interest charge of more than £100 million, representing "an unsustainable claim of £100 per week on each bed in the chain"**[143]. When a £1.24bn repayment of senior debt was due in September 2008, the Qatar Investment Authority, unwilling to refinance the debt, wrote off the value of its equity holding (£100m)[144], effectively walking away. This was followed by a "debt for equity swap"[145]: Royal Bank of Scotland took a near 40% stake and wrote off £300m in loans, and altogether 30 lenders partially wrote off debts. This halved Four Seasons' debt load to £780m. Yet in 2009, three years after the private equity purchase by Three Delta, Four Seasons was still "unable to cope with its debt mountain and faced the threat of bankruptcy"[146].

Four Seasons, which at that point operated 500 homes[147] (25,000 residents[148]) and was still struggling with its outstanding debt, was eventually bought in 2012 by Guernsey-based private equity firm Terra Firma via its subsidiary Elli Acquisitions Limited. Guy Hands' Terra Firma fund paid £825m for Four Seasons, of which about £500m was borrowed[149], and injected over £300m of fresh equity in the business.[150] **Terra Firma claimed it had "put in place a secure capital structure, de-risking the business and lowering the cost of capital"**[151]. Yet in **2017**, after it had issued

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[138] Guardian (01/2018): Four Seasons Health Care rescue talks suffer setback (13.08.2021).
[139] TheSun (04/2019): Four Seasons Health Care with 22,000 staff and 17,000 patients goes into administration (13.08.2021).
[140] Financial Times (02/2020): Private equity and Britain's care home crisis (13.08.2021).
[141] Burns et.al. (2016), 22.
[142] The Times (12/2009): Banks swallow bitter pill over Four Seasons debts (18.08.2021).
[143] Burns et.al. (2016), 7.
[144] The News Line (11/2011): Four Seasons 'The Son Of Southern Cross' Warns Gmb (18.08.2021).
[145] Ibid.
[146] Waples and Marlow 2009, in Scourfield (2011).
[147] Guardian (09/2011): Four Seasons to take Southern Cross's mantle as biggest care homes operator (18.08.2021).
[148] Guardian (05/2012): Terra Firma care homes takeover triggers MPs' calls for tighter regulation (18.08.2021).
[149] Guardian (12/2017): A shocking way to fund UK care homes (18.08.2021).
[150] Reuters (04/2012): Four Seasons Health Care in talks with Terra Firma-FT (18.08.2021).
[151] Burns et.al. (2016), 8.

£525 million of external debt whose interest cost was £50 million (£175m-worth of junior unsecured notes at 12.25% interest, and £350m-worth of senior notes at 8.75% a year)[152], **Four Seasons again faced default**. It attempted a last-minute debt restructuring in late 2017[153], but the plan was rejected by lenders. H/2 Capital Partners, a US hedge fund and Four Seasons' largest creditor since it had bought the struggling company's debt at deep discounts since 2015, was now effectively in control of the business, which went into administration in April 2019.

Importantly, Four Seasons had significant **intra-group debt in addition to the £525 million of external debt**. In 2015 for instance, Elli Investments (the parent company and major holding company of Four Seasons) reported £300 million **intra-group borrowing charged at 15% interest**[154], bringing the internal interest cost to £46.7 million, and Four Seasons' total debt (external and internal) to £800 million[155]. In 2018, Elli Acquisitions Limited (its new name) reported "£547.5m owed to parent and related undertakings within the group of companies owned by FSHC Group Holdings Limited, the company's indirect shareholder"[156].

As for the use of **offshore locations in its company construct, Four Seasons, for example, listed "80 wholly owned subsidiary undertakings with various purposes and registration locations" in 2018**, and its ultimate parent entity was registered in **Guernsey**[157]. Its corporate structure "changed considerably" over time, "making it very difficult to make sense of changes (in for example, the asset base or rents charged) before and after the Terra Firma purchase in 2012"[158].

152 YahooFinance (06/2018): Four Seasons owner says unable to pay coupons on 525 million pound of company debt (18.08.2021).
153 Financial Times (11/2017): Terra Firma offers to hand creditors control of Four Seasons (18.08.2021):
154 OpenDemocracy (03/2016): Britain's care homes are being turned into complex financial instruments (18.08.2021).
155 Burns et. al. (2016) in Careless Finance (2021).
156 Careless Finance (2021), 21.
157 Ibid.
158 Ibid.

HC-One

HC-One, which was formed in 2011 out of the acquisition of former Southern Cross homes, was bought in 2014 by Formation Capital LLP, Safanad Inc (a US and Dubai based investment firm) and Court Cavendish Healthcare Management Services Ltd. The leveraged purchase was backed by £394.5m of debt financing from the lead investor, HCP.[159]

After having taken over a third of Southern Cross' homes after the company collapsed in 2011, HC-One Limited was acquired in November 2014 by a consortium of investors involving US real estate investment firm Formation Capital, UK management company Court Cavendish, and global private investment fund Safanad.[160] This, again, was a **highly leveraged deal**: of the £477 million paid, 83% (£394.5 million) was debt provided by the American Real Estate Investment Trust (REIT) HCP.[161]

HC-One and its various subsidiaries and holdings "**engage in a plethora of intra-group loans, with high interest rates**"[162]. In 2017, for instance, FC Skyfall Holdoco 1 Limited issued a loan to FC Oval Bidco Limited of £80 million at an **interest rate of 15-18%**, and by 2019 the interest accrued on the loan "meant that the total amount owed had grown to £103.7 million"[163]. Looking at the 2020 financial reports for some of the group's companies, **intra-group financing arrangements** are still rife. According to HC-One Limited's account reporting on the year ended in September 2020, £7.3 million was due to FC Skyfall Topco, and £16.6 million to Skyfall TA, two group undertakings not part of the consolidated group headed by FC Skyfall Upper Midco Ltd, but part of the wider "FC Skyfall" financial empire.[164] Further intercompany loans are cited, **such as £74.1 million due for repayment in November 2022, at a fixed interest rate of 9% per annum**, as well as other amounts due within one year but bearing no interest, in addition to various lease payments.[165] These three sums together amount to £98 million owed to entities belonging to FC Skyfall, which is not a negligible sum as it represents nearly one fifth of the overall purchase price of HC-One Limited in 2014.

Recently, HC-One entered a fresh round of indebtedness. In April 2021, FC Skyfall (UK) FinanceCo Limited, one of the newly created intermediate parent companies of the HC-One group, **entered**

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[159] Business Wire (11/2014): HCP Announces £394.5 Million ($630 Million) Debt Investment In UK Care Home Portfolio (18.08.2021).
[160] Ibid., 10.
[161] Law360 (11/2014): REIT HCP Loans $630M For UK Health Care RE Acquisition (18.08.2021).
[162] Careless Finance (2021), p. 19.
[163] Careless Finance (2021), p. 16.
[164] HC-One Limited (2021): Strategic report, directors' report and audited financial statements for the year ended 30th September 2020, 36.
[165] HC-One Limited (2021), 35.

into a five-year loan facility arrangement of more than £500 million with Welltower[166], who partnered with Safanad (one of the investors in the 2014 acquisition of HC-One) to "recapitalise" HC-One. The new debt, with a value well above HC-One's initial purchase price of £477 million, **consists of a £540 million secured loan backed by the mortgage rights to HC-One's real estate and other assets**, which will be used to repay existing debts of FC Skyfall Holdco 3 Ltd, and a further £30 million delayed facility.[167] The deal came with a £55 million equity injection.

HC-One, **is also a case in point to illustrate the complex offshore ownership web that private equity firms craft around care home companies**. HC-One Limited is the known name for the largest care home chain in the UK. Although HC-One Limited is a care home operator registered in the UK, it is only the very small tip of a complex iceberg of intermediate parent companies leading to several offshore locations. HC-One's immediate parent company (owner of 100% of its shares) is Libra Intermediate Holdco Limited, incorporated in **Jersey**. Libra Intermediate Holdco Limited itself has a whole chain of parent companies (e.g. NHP Holdco 1 Ltd, FC Skyfall Bidco Ltd, etc.) which are all part of a larger group of companies whose consolidated financial accounts can be found under the financial statements of FC Skyfall Holdco 3 Limited, itself registered in the **Cayman Islands.** In addition, an investigation by The Ferret in July 2020 found that in Scotland "HC-One rents six of its care homes from HCP UK Investments (Jersey) Limited"[168]. HCP, which is "largely owned by the Chinese Ministry of Finance through the Cindat investment fund and China Cinda bank[169]" and partly owned by US-based property investor Omega Healthcare, was one of the creditors who financed the initial purchase of HC-One. HC-One rents another 23 Scottish care homes "from its own sister company, FC Skyfall IOM Properties Limited, which is registered in the Isle of Man", The Ferret reports.[170]

[166] Senior Housing News (04/2021): Welltower Provides $750 Million in Re-Cap of U.K.-Based Provider HC-One (18.08.2021).
[167] Ibid.
[168] The Ferret (07/2020): Scottish care homes owned by the Chinese state in tax havens (18.08.2021).
[169] Cinda (2021): About Us (18.08.2021).
[170] The Ferret (07/2020): Scottish care homes owned by the Chinese state in tax havens (18.08.2021).

5.3 Results for workers and the quality of care

Between March 2020 and January 2021, more than 20,000 deaths linked to Covid-19 were registered in care homes in the UK, representing almost 5% of the total care home population.[171] More generally, UK care home chains have been at the heart of numerous scandals over the past decade, related to the mistreatment of residents, but also to financial collapses of some of the biggest care home groups.[172]

Care work, which is predominantly undertaken by women, and disproportionately by ethnic minority and migrant workers, is **one of the lowest paid sectors in the UK economy, in spite of being one of its most essential sectors** as painfully demonstrated by the Covid19 pandemic. In March 2020, the median hourly pay for UK care workers was £8.50, just 29p above the National Living Wage[173] and job satisfaction among care workers was low and in decline. Although women represented 83.9% of the workforce in 2019[174], the gender pay gap for care workers and home carers was on average £1,564 a year (according to the Annual Survey of Hours and Earnings UK). That same year almost 25% of care workers were on highly insecure zero-hours contracts.[175]

There is compelling evidence that for-profit owned care homes provide worse quality care and poorer working conditions. In for-profit care homes, wages are reportedly £2 per hour lower on average than in publicly run homes[176]. Poor pay is often "**compounded by a raft of strategies designed to reduce costs"**[177] such as restrictions on annual leave, on sick pay, on paid break, reductions in the number of qualified nurses, increases in residents-to-staff ratios, and making training unpaid and online.[178]

In 2020, the Care Quality Commission (the UK care sector regulator) considered that **16% of care homes in England were "inadequate" or "requiring improvement"**[179], with many issues affecting privately run and private equity owned chains in particular. Indeed, researchers like Corlet Walker argue that there is ample evidence worldwide that "**for-profit care homes deliver worse-quality care than voluntary and public sector operators**"[180].

[171] Guardian (01/2021): Covid-related deaths in care homes in England jump by 46% (18.08.2021).
[172] BBC (04/2009): Britain's Homecare Scandal (13.08.2021).
[173] Fenton et. al. (2020) in Careless Finance (2021).
[174] CareerSmart (2021): Care workers and home carers (18.08.2021)
[175] Dave et. al. (2019) in Careless Finance (2021).
[176] Burns et al. (2016) in Careless Finance (2021).
[177] Careless Finance (2021), 11.
[178] Burns et al. (2016) in Careless Finance (2021).
[179] CQC (2020) in Careless Finance (2021).
[180] The Conversation (04/2021): Care homes: why investment firms can be bad owners (18.08.2021).

The 2019 "Who Cares" report by the IIPR notes that "there is evidence that **private providers have less training for staff, higher turnover and lower pay**" and "that small nursing and residential homes provide better care" than large private providers.[181] Often, for-profit facilities therefore tend to provide lower quality care than non-profit ones.

[181] Blakely/Quilter-Pinner (2019): Who Cares? The Financialisation of Adult Social Care (18.08.2021).

6. CONCLUSION AND SUGGESTIONS FOR REGULATION

The national and cross-border dynamics we describe are alarming - all the more since private equity funds have just reported new fundraising records, and will be the players with the deepest pockets in the years to come after the Covid pandemic. The crisis in care during the pandemic did not surprise many people who work in the sector. The retreat of public and non-profit actors from the care sector, combined with the enormous firepower of private equity funds, has created a system that is siphoning public money upwards, and outwards, often to offshore financial centres.

In all cases we looked at, we found the **same essential private equity toolbox**. In all cases, existing homes have been sold and leased back by the company, stripping it of its assets. In all cases, there have been enormous increases in debt loads after the buyouts. And in all cases where this information was available, the cash flow ended up in a parent company operating from an offshore financial centre, most often from Luxembourg.

Table 1: The private equity toolbox in the cases studied[182]

	Parent company in offshore financial centre	Sale and leaseback of real estate	Increased debt load after buyout
France	3/3	3/3	3/3
UK	3/3	3/3	3/3
Germany	3/3	3/3	3/3

The systematic leakage of money should be a warning to the public and to policymakers alike. Services as essential as the provision of care, which receive public money to provide an essential service to society, are not consistent with the risk appetite and demand for returns of financial actors like private equity firms.

[182] For an excellent account of this toolbox in the UK see CHPI (2019): Plugging the leaks in the UK care home industry (16.08.2021).

If policymakers in different European countries want to change this, we propose:

- **Keep private equity out of the care sector**:[183]
    - The care sector should not be run on the financial logic of private equity firms. The service of caring for elderly and vulnerable people is not compatible with the intensive profit-making logic of this sector. For existing PE engagements in care homes, distributions to investors should be limited to a level that allows for humane care and a long-term economic viability of the homes.
    - European **countries need to build more new care facilities themselves** and should carefully consider who is providing the services for these future homes. A best case for this is the Preston model of public procurement.[184]

- **National financial care regulators**
    - European countries should each **centralize the supervision** and control of the care sector and create regulators to **oversee the financial regulation** of systemically important care providers.
    - Stricter **quality controls** and **whistleblower systems** for care home chains should be implemented and combined with task forces that can intervene in cases of severe misconduct. Misconduct in care has to be sanctioned.
    - Supervisors should demand **transparency of financial flows** from the owners of care homes and other care-related services.
    - Where this is not already the case, national regulators should **distinguish between different ownership structures.**

[183] Blakeley/Quilter-Pinner (2019) has defined the necessary reforms for the UK care sector brilliantly.
[184] Preston City Council (2021): What is Preston Model? (16.08.2021).

If states still want to let PE firms and other financial sector companies invest in care homes, then those practices - **their toolbox - should be much more regulated**. This might put an end to LBO operations in the care home sector altogether, for instance through:

- **Prohibition of asset stripping**
    - While EU regulations envision a regulation of asset stripping[185], we have shown how viable care homes have turned into heavily indebted companies. National and European authorities should **regulate the sell-off of real estate and other assets** happening in the care sector.

- **Regulation of debt pushdown and intra-group loans**
    - Funds should not be able to limitlessly "push down" their debt to companies they acquire. European rules should be changed so **debt has to be reported at the fund level**, not at the company level only.
    - Countries should consider **revising the regulation and taxation of interest paid on intra-group loans**.

- **Liability of private equity firms for the fate of companies:**
    - It is highly problematic that private equity investors report enormous profits without putting their own capital at risk. Private equity firms should be **liable for potential insolvencies for a certain period after they exited**, up to the total amount of dividends including fees.[186]

[185] See page 39 in EU COM (2020): COMMISSION STAFF WORKING DOCUMENT. Assessing the application and the scope of Directive 2011/61/EU of the European Parliament and of the Council on Alternative Investment Fund Managers. SWD(2020) 110 final.
[186] A blueprint for such a regulation of private equity's liability can be found in Elizabeth Warren's „Stop Wall Street Looting Act", see Warren (07/2019): Warren, Baldwin, Brown, Pocan, Jayapal, Colleagues Unveil Bold Legislation to Fundamentally Reform the Private Equity Industry (13.08.2021).