

Investment opportunities within the case management sector

The case management market is currently small, under-researched and fragmented, but demonstrating tremendous growth and momentum. As such it offers an attractive investment opportunity for existing healthcare service providers and PE firms willing to invest in a longer term buy-and-build strategy.

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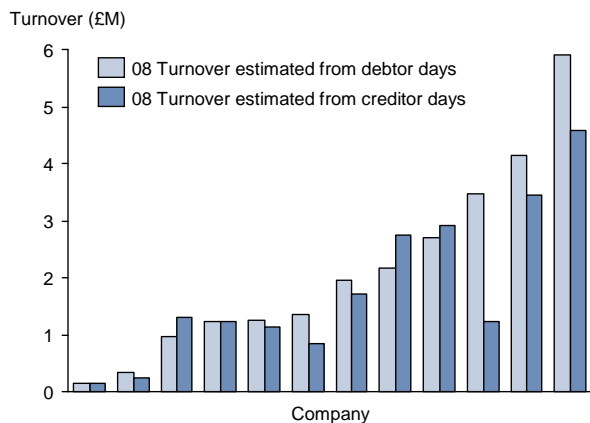
- Case Managers organise the care of individuals who have serious ongoing medical needs such as acquired brain injury and acquired spinal injuries, whose care is funded by large insurance payouts
- Case management companies have stable and long term revenue streams within a market growing at around 20% p.a.
- The market is highly fragmented and regional – total market size is estimated at £60-100M with no single organisation having more than a 10% market share – the emergence of a true market leader is likely to emerge in the next 3-5 years
- There are potential synergies between case management and complex care businesses, primarily around sharing a pool of carers and nurses and clinical expertise
- Given the significant growth rates and the preponderance of capital-constrained founder-owners, there are a growing number of investment opportunities

Case managers organise the care of their clients who have serious ongoing medical needs (e.g. acquired brain injury) and are funded by insurance payouts

- Case managers (CMs) do not employ or contract carers or nurses – this is done by the client or the insurance company – but the CM is responsible for managing them, training them, and putting the package together acting in the best interest of their clients. Case management companies comprise case managers who charge by the hour for organising care packages – a similar business model to law firms
- The companies usually have a long term stable revenue stream as they keep their clients for many years. Even with no new business, the companies continue to generate stable profit streams for many years
- Clients are referred either by lawyers, or by insurance companies – these relationships are critical
- Increasingly, due to the lack of supply of complex care providers, Primary Care Trusts (PCTs) turn directly to CM companies
- Case management firms can act independently of the insurance companies to determine the services for the clients. This was validated by the ruling in the 2005 case of Wright v Sullivan. For Case Management firms that deal directly with the Client, this means that their margins are insulated from pricing pressure from the Insurance companies.

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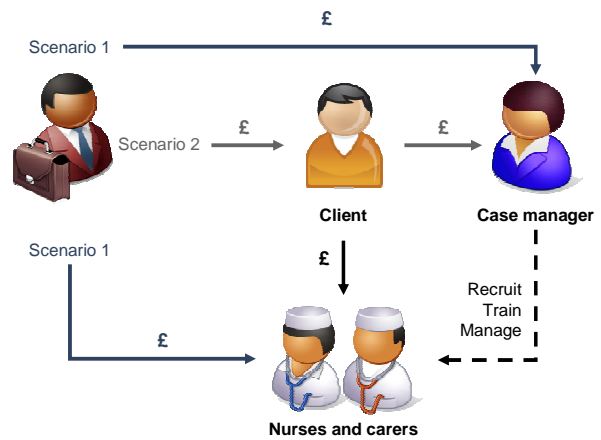
2008 estimated turnover of sample companies



Note: Turnover estimated from creditors and debtors, using industry norm debtor and creditor days. Turnover estimates calibrated to actual values where known.

Source: Company accounts, interviews with companies, Cairneagle analysis

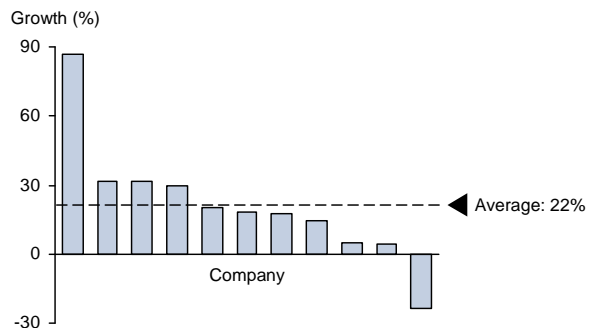
The case management model



The industry is growing and there are strong drivers for future growth

- The case management model came to the UK from the US c. 15 years ago
- The market growth rate is difficult to estimate due to the lack of published information and its fragmented nature
- People often develop the relevant medical needs at a young age and, while not materially affecting their life expectancy, they will be dependent on case management services for the rest of their lives
- Given the market is still young, a steady state level of CM provision has not been reached: the number of new cases exceeds the number of cases closed
- Medical advances are leading to more people surviving accidents
- Analysis of company accounts suggests that the market is growing at around 20% p.a.

Estimated turnover growth 2008-2009 of sample companies



Note: Turnover from actual reported values where available, or estimated from creditors and debtors, using industry norm debtor and creditor days.

Source: Company accounts, interviews with companies, Cairneagle analysis

There could be synergies between case management and complex care businesses despite a potential conflict of interest: a merged business could share a pool of carers and nurses

	Complex care (CC)	Case management (CM)	Merger pros	Merger cons
Patient type	<ul style="list-style-type: none"> Adults and children with a large range of complex care needs as defined by the NHS 	<ul style="list-style-type: none"> Adults and children at the more complex end of medical needs that have resulted in a large (£multi-million) insurance pay-out e.g. Acquired Brain Injury, Acquired Spinal Injury 	<ul style="list-style-type: none"> Some overlap of clinical expertise and track record of caring for people with specific needs 	
Services	<ul style="list-style-type: none"> Provide full homecare package including all carers and nurses 	<ul style="list-style-type: none"> Predominantly recruit and train nurses and carers who are employed by the patient Often go to court to provide evidence Some use of agency staff 	<ul style="list-style-type: none"> CM could manage CC packages Recruitment and training synergies, and pooling of resources Potential for CM to use CC bank of carers New career paths may help staff retention 	<ul style="list-style-type: none"> Very different business models Potential significant conflict of interest for CM: provide maximum benefit for client vs provide revenue stream for CC division – strategic partnership may be better than merger
Clients and Leads	<ul style="list-style-type: none"> Mainly Primary Care Trusts (PCTs); some private-pay individuals 	<ul style="list-style-type: none"> Predominantly funded by insurance payouts. Referrals come from lawyers Insurance companies A few PCT clients 		<ul style="list-style-type: none"> Referring lawyers may question that CMs’ interests are conflicted
Central costs			<ul style="list-style-type: none"> Head office and admin cost savings 	<ul style="list-style-type: none"> Reduced management focus
Branch network			<ul style="list-style-type: none"> Improved geographical coverage 	

We believe that a number of founder-owners are considering their exit options and there could be an interesting consolidation play for early stage investment firms and healthcare providers in related areas

- Many companies have been run by their founders for over 15 years, and these individuals are considering how to monetise their equity positions
- Some lack the financing or ambition to expand into new business areas or regions
- The long term reputation of the firm is important. Owners would need assurance that levels of service are maintained and the futures of their staff are secure
- Most of the players are focussed in a specific region
- There is an opportunity to become a nationwide leader, and instil best-practice operations and processes

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Cairneagle is a London-based strategy consulting and venturing firm. We typically work with chairmen and chief executives across a wide variety of businesses supporting them in key strategic and investment decisions. We also work with Private Equity firms both originating deals and carrying out commercial due diligence. Our distinctive approach to consulting owes much to our involvement with ventures. In ventures, there is reward only for success. In consulting, making our clients successful is often explicitly part of how we are rewarded.

Please visit www.cairneagle.com to find out more about Cairneagle; or contact Matt Cooksley on 0207 036 9403 or matt.cooksley@cairneagle.com if you would like to discuss the content of this report or other business issues where you think Cairneagle may be able to help.

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