

A Work Project presented as part of the requirements for the Award of a Master Degree in Finance from NOVA – School of Business and Economics

LNA Santé – A LBO for the Elderly

Duarte Azevedo de Brito Marques Diniz | 22332

A Project carried out on the Master in Finance Program, under the supervision of:

Professor Luís Mota Duarte
Professor Fábio Soares Santos

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Abstract:

Begun operating in 1992 and today is ready to be bought and to grow massively in the upcoming years. LNA Santé, the fifth French player in the long-term care market, will be acquired in 2019 in a Private Equity deal and will improve its operations in Europe. This deal is expected to return 3.1x the money invested by the fund and an internal rate of return of almost 26% with an exit in five years (2023). This successful exit is possible due to an ageing population that is set to increase demand for dependent care which is reflected in the number of nursing home beds forecasted to double.

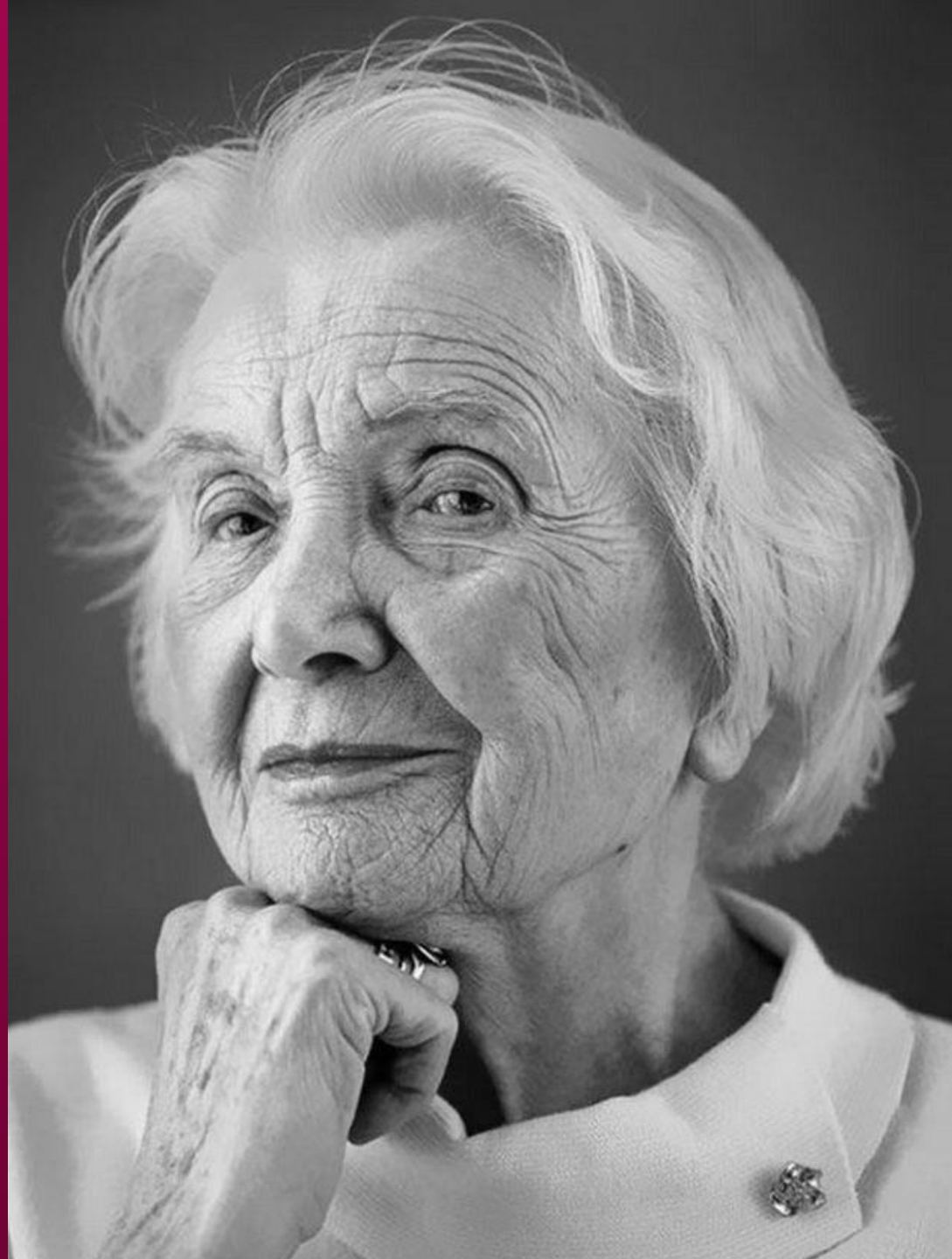
By the time of exit, the firm will amount €828 M of revenues and €94 M of EBITDA streaming from consolidation of operations in the current operating countries – France and Belgium – and an internationalization bet in the Netherlands. It is presumed that this paper will inform how a deal in Private Equity in the long-term care market in Europe is conducted.

Key words:

Long-Term Care Market, Nursing Home, European Market, LNA Santé

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Market Overview



MARKET OVERVIEW | Market Sizing

The ageing landscape in Europe is key for the long-term care sector. Healthcare expenditure is expected to increase at a CAGR of 5,3% in Europe until 2025

1 A Growing Niche

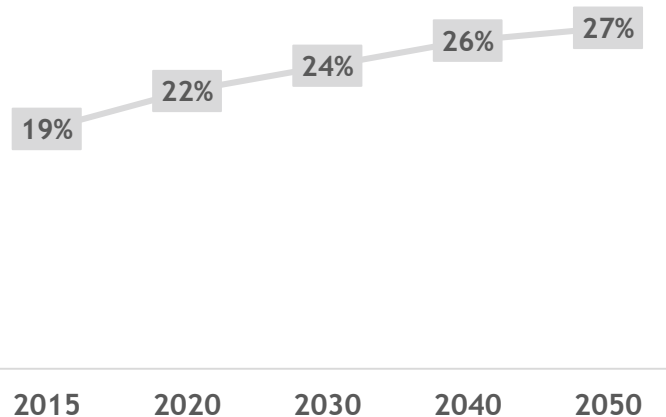
- The global population over 65 years old will increase by 56% until 2030 and by 50% until 2050. Furthermore, by 2030, the European population over 80 years old will grow 40% and by 2080, individuals with more than 80 years old will have multiplied 2.5 in Europe.
- The increasing number of population will affect the expenditure in healthcare which has been reflected in a CAGR of 3% from 2014 to 2018 and is expected to grow at a CAGR of 5% until 2025, in global terms.
- In Europe, the expenditure will grow from €1,8 trillion at a CAGR of 5,3% until 2025.
- Furthermore, life expectancy has increased, and, among other things, this means that the baby boom generation is now over 70 years old, shaking up all previous paradigms of intergenerational solidarity.

Long-term Care represented 14% of total Health Care Expenditure of all OECD countries in 2017

2 Ageing European Population

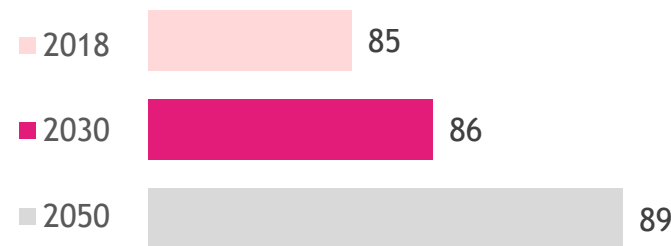
% Europeans over 65 years old

Higher percentage of population over 65 years old



Longer life expectancy in Europe

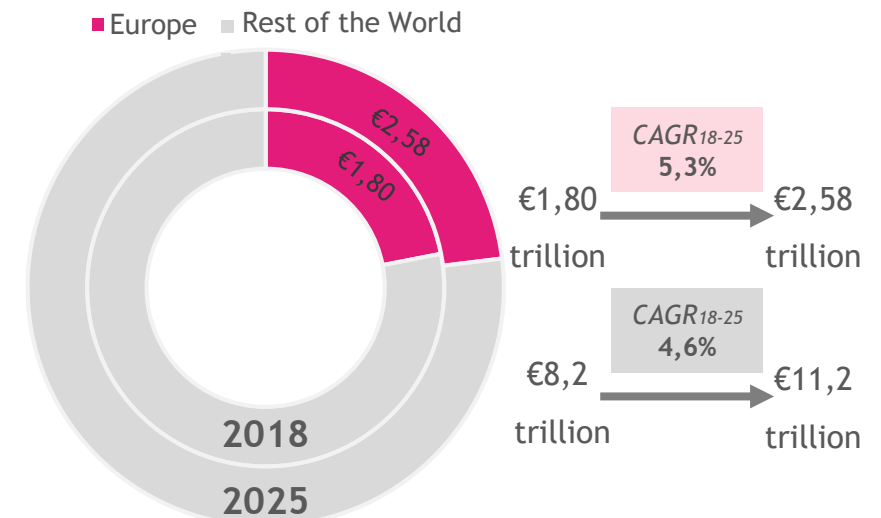
In 2015, life expectancy in Europe was 77.9 years for men and 83.3 years for women and the projections for the following years are:



In 2018, 20% of Europeans were over 65 years old. By 2030 this will reach 25%

3 Rising Healthcare Expenditure

Expenditure in healthcare in trillions



MARKET OVERVIEW | Growth Drivers

The market is being driven by the longevity of population and the increasing need for long-term care. The market is growing and LNA Santé has an opportunity to face this unmet demand

1 Strong Fundamentals

Ageing Population

- Elderly population was over 800 million in 2012, projected to surpass 2 000 million by 2050.

Growing Market for LNA

Regulation

- Healthcare is one of the most regulated industries in the world and those regulations are in constant change.

Key Issue for LNA

Purchasing Power

- Middle class will increase its purchasing power, expanding the ability to pay for healthcare. Healthcare spending is projected to reach over 10 trillion dollars by 2022, in emerging markets.

Opportunity for LNA

Chronic Diseases

- Chronic diseases are expected to increase 57% by 2020, with over 60% occurring in emerging markets.

Growing Demand for LNA

2 Trends For The Following Years

- A **Shift to home services** instead of treatments in clinics.
- Strategic **international expansion** with major incidence in South America and China - good alternative to a very mature market in Europe and to gain market share.
- The **progress into telemedicine** must be an answer to the ageing trend as it enables people to stay a longer period in their homes.
- **Private operators will grow in market share**. The increase of elderly population raises a question of financing. The number of public and non-profit operators will decline.
- **M&A activity is increasing** as a result of a fragmented market.

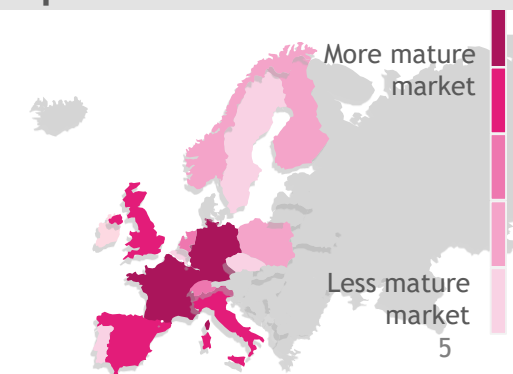
3 The Value Chain

- The value chain of this business starts with the **payers** of the service. These are the **beneficiaries** and the **government** (with financial support).
- **Insurers** are important allies to the operators.
- Moreover, the operators also depend in some part from the **drug producers** and **device manufacturers** that provide key goods for the well-functioning of the service.

In Europe the nursing homes are mainly financed by the beneficiary

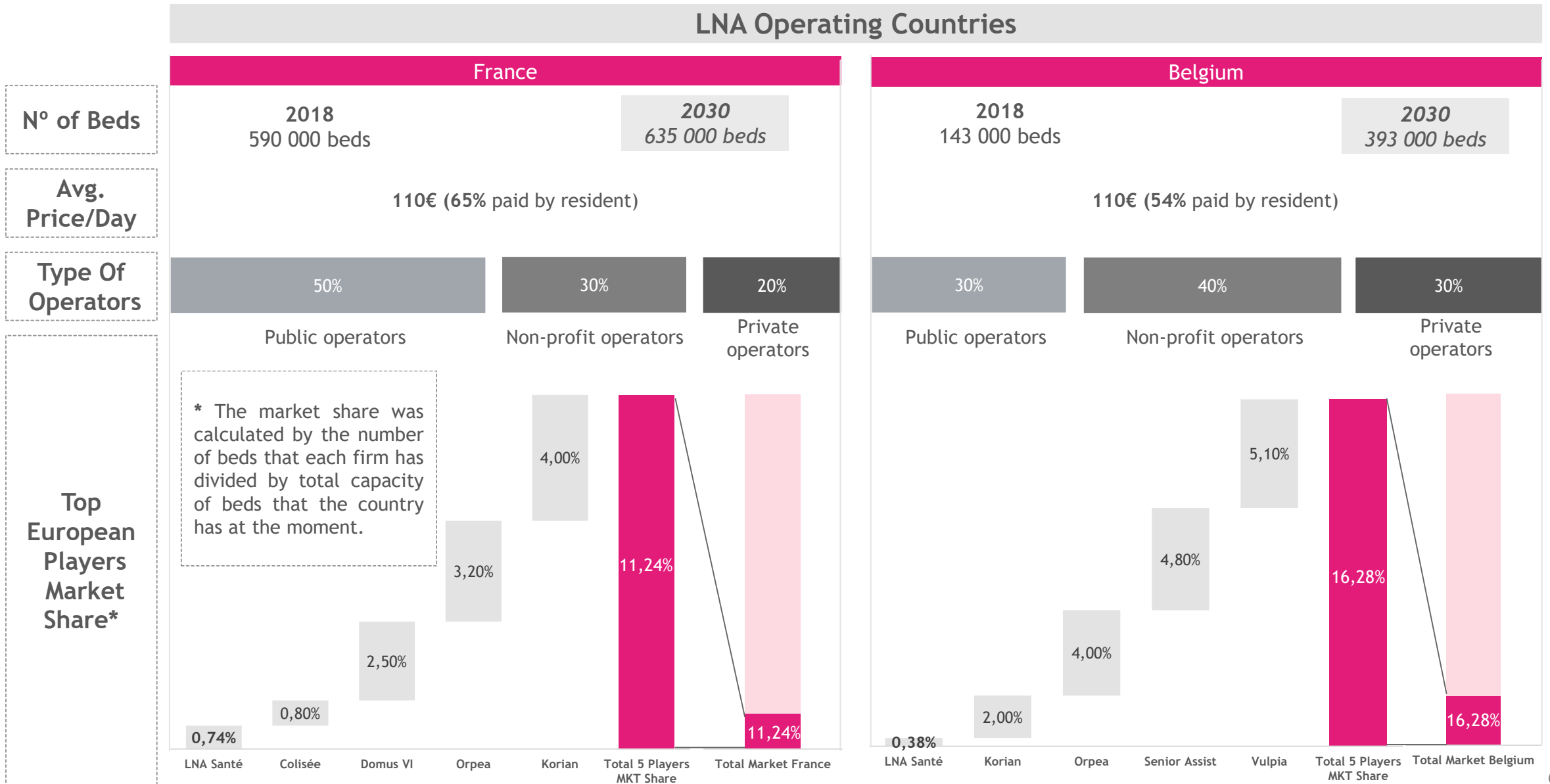
4 The Fragmented European Context

- The European market for the long-term care is a **very mature** and **fragmented market** (Annex 2 and 3)
- France and Germany are the countries with the most mature outlook, in terms of beds in Europe.



MARKET OVERVIEW | Competitive Dynamics

The European landscape of this sector is changing. Private operators can take advantage of this highly fragmented market and the funding paradigm to invest in high growth countries



Top European Players Market Share*

* The market share was calculated by the number of beds that each firm has divided by total capacity of beds that the country has at the moment.

MARKET OVERVIEW | Competitive Dynamics

LNA Santé offers a competitive pricing mainly due to its Comfort Line in the long-term care service provider



LNA Operating Countries

Regulation

Funding

Pricing

France

Licensed Country: operators are required to gain prior approval from local authorities before they can build, open and operate a new care home.

- There is not a specific number of facilities that is limited to a private operator.
- The limitation comes with the government allowing the expansion of facilities.

Average Daily Price = 110€

65% - paid by the resident
20% - subsidy for people older than 65
15% - subsidy for disabled people

Semi-regulated: prices set freely when opened, then regulated.

| | | |
|---|--|--|
| 1740€ Avg. retirement income | 3300€ Avg. monthly private price France | 1950€ and 2550€ LNA Santé prices* |
|---|--|--|

Belgium

Licensed Country: regional authorities can issue agreements to open and manage a nursing home facility. This agreements are tied to an operator and a building.

- There is not a specific number of facilities that is limited to a private operator.
- The limitation comes with the government allowing the expansion of facilities.

Average Daily Price = 110€

54% - paid by the resident
31% - subsidy for people older than 65
15% - subsidy for disabled people

Semi-regulated: prices set freely when opened, then regulated.

| | | |
|---|---|---|
| 1200€ Avg. retirement income | 3300€ Avg. monthly private price Belgium | 1950€ and 2550€ LNA Santé prices |
|---|---|---|

* The Comfort line price is 1950€ and the regular price is 2550€.



Company Overview

COMPANY OVERVIEW | Business Model

LNA Santé business lines range from typical nursing homes to full hospitalization at the patient's home. In Europe, LNA is the player with more focus of its revenues in the home care service



5th player providing care for dependent people in France

68
establishments

7 258
beds

6 200
employees

+7 400
residents/day

30 years
expertise

1 The Most Relevant Business Segment is ALF

Assisted Living Facilities (ALF)

- LNA provides nursing homes for medium to long-term care. The latter focus on resident accommodation for the elderly.
- There are 2 segments within the ALF: **Comfort** and **Elegance** range.
- Both offer hotel services, medical assistance and sociocultural activities. What differs is the premium positioning of the hotel services of the Elegance range.

Aftercare and Rehab (ACR)

- In this segment, patients are expected to recover from severe physical, cognitive and/or psychological illnesses.
- To be admitted in this facilities, one has to acquire a medical prescription.
- The main purpose of LNA is to help patients to adapt to their limitation and find bypass strategies to overcome potential adverse situations.

Home Care (HC)

- Home Care (HC) ensures ongoing medical and paramedical care at home of the patient.
- HC is a full-time hospitalization and concerns patients of all ages with acute or chronic diseases.
- This is the business line that has the highest level of medicalization of all three.



Elderly people over 65 years old

Hospitalization intensity



Locomotor, mental and cardiovascular disorders

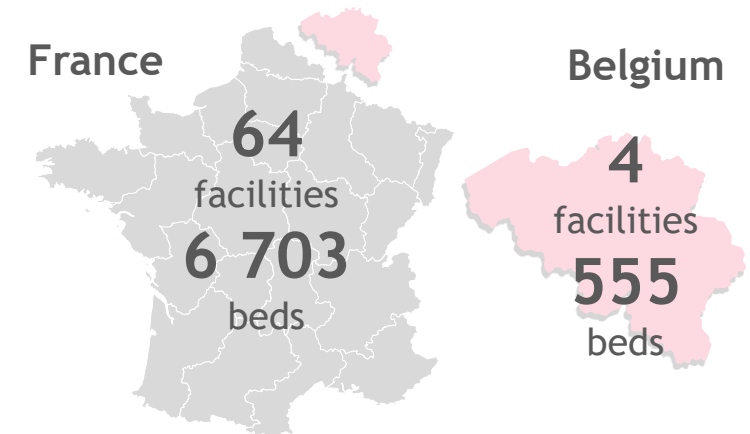


Palliative Care and Post-Chemotherapy



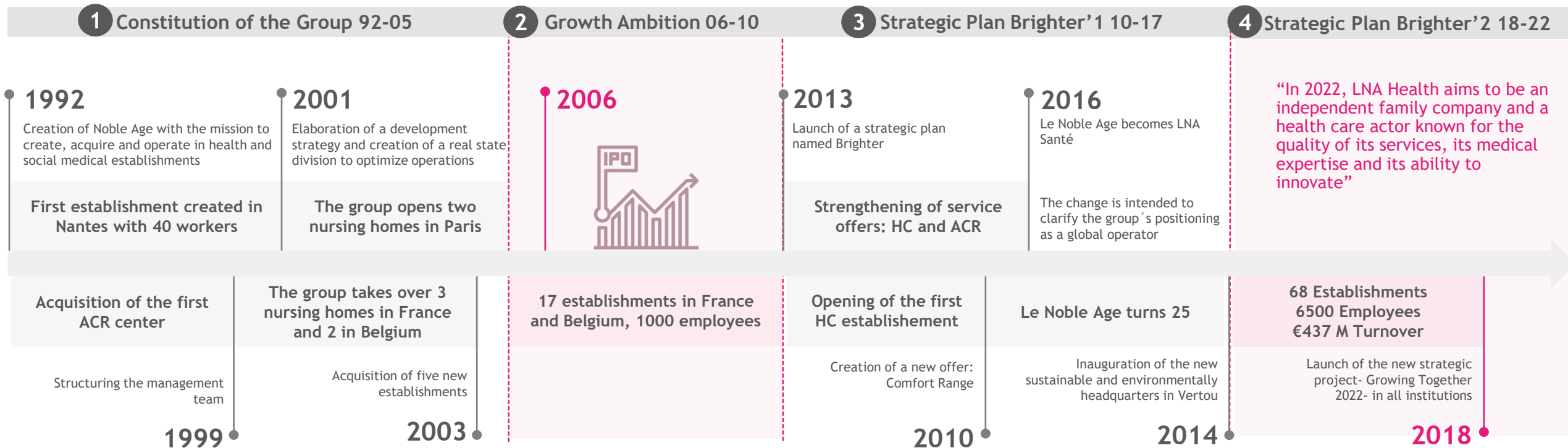
2 LNA Santé Portrait

- Since 1991, LNA Santé has created, acquired and operated medicalized retirement and care homes.
- The company is present in all market segments, but almost exclusively in France. In 2018, it was operating 68 healthcare facilities.
- To provide an answer to fewer authorizations to increase capacity in France, LNA Santé has decided to develop a budget offer. It is relying on this to expand in France and to meet the clearly unfilled demand.



COMPANY OVERVIEW | Business History

LNA Santé has been operating since 1992 and growing in the number of facilities and beds at a CAGR of 18% and 20%, respectively



Strengths

- Stable family governance
- An extended and innovative range of services
- Accessible offers - Comfort line
- Above market average capacity in care homes - easier adaptation to technological changes and patient needs

Weaknesses

- Limited new authorisations, especially in France
- Almost an exclusively French presence - already a very mature market
- Controlled but outsourced property development, with rental expenses leading to high investment rates

Opportunities

- Increasing life expectancy
- The sector is facing a boom in M&A
- Decline in public/non-profit operators. It will help private operators to grow in market share
- Low ownership of assets
- High barriers to entry environment

Threats

- Regulatory, operating and technical restrictions favoring consolidation in the sector

COMPANY OVERVIEW | Competitive Positioning

The group intends to be the highest quality operator in elderly care. It is the firm with the highest percentage of revenues in Home Care Hospitalization and had an organic growth of 4,4% in 2018



1 Clear and Different Positioning in the Market

Robust and secure organic revenue growth

- LNA Santé has a different strategy from its peers with an almost exclusively French presence and with a big expansion of its scope of activities. It has a strong medical specialization - ACR.
- The firm had an organic growth of 4,2% and 4,4% in 2017 and 2018, respectively.

Pricing power with Comfort line

- LNA Santé has managed to develop a wide-range and innovative services offer.
- The group's budget nursing home offer - Comfort line (available to all) - is meeting unfilled demand while respecting state budgetary restrictions and is a significant source of fresh growth.

Asset light expansion

- LNA Santé has chosen a different approach than its peers, preferring not to own property assets.
- However, LNA Santé has full control over the structures it operates. The group fully handles construction programs and the project management of properties.
- The new or renovated property is then sold to institutional and private investors (Annex 6)

Innovative offers as Home Care

- In recent years, it has developed complementary offers in follow-up care and rehabilitation clinics and in home care, which currently accounts for 8% of sales.
- As mentioned before, the demand is asking for a home customized service which the firm has developed more than its peers - it was the pioneer in France.

2 LNA's Offers and its Characteristics

Major differentiating factor: to provide an answer to the issue of low capacity of scale in France, LNA has developed the comfort and elegance range. The firm is relying on the cheaper line to expand in France with the offer to meet clearly unfilled demand. This offer should favor authorizations and takeover of care homes in the public and non-profit sector.

Homes with large capacity: one of the main restrictions in the market is the size of care homes in terms of number of beds and its area of service. LNA is well ahead of the sector average with 104* beds per facility and is expecting to reach 120* beds by 2022 due to its larger facilities.

Dynamic offer: the business has extended into associated activities with **Domity's** (a French player in day centers for the elderly) where its residents have priority for entry in LNA's care homes; it has 11 institutions with **Telemedicine**, a service platform in connection with hospitals of many specialties; it has a monthly offer with **Bluelinea** that makes available connected objects, services and personalized access to workshops proposed by LNA.



2 countries

€539 M
2018 revenue

+10,6%
vs 2017

94%
revenues France

104
beds/facility

~0% Fully
owned property

8% Home Care
revenues

* Average number of beds per facility in all segments.

Sources: Company Reports, Brain, Garnier & Co Independent Research

COMPANY OVERVIEW | Competitive Positioning

LNA was the company with the highest revenue growth in 2018 - 10,6% - and with the less percentage of fully owned properties in the market



1 Competitive Landscape

Orpea

Orpea was founded in **1989** and is present in **16 countries**. Two of this countries are outside Europe: Brazil and China. It operates in **951 facilities** and has a ratio of **102 beds per facility**.

€3,420 Bn

+8,9%

2018 Revenue

vs 2017

26,7%

EBITDAR

17,7%

EBITDA

6,4%

Net Income

40%

Fully owned property

60%

Revenues France

2%

Home Care revenues

Korian

Korian was founded in **2003** and is present in **5 countries**. All the countries are in Europe. It operates in **743 facilities** and has a ratio of **101 beds per facility**.

€3,336 Bn

+6,4%

2018 Revenue

vs 2017

26,2%

EBITDAR

14,3%

EBITDA

3,7%

Net Income

19%

Fully owned property

30%

Revenues France

1%

Home Care revenues

Domus VI

Domus VI was founded in **1984** and is present in **6 countries**. Two of this countries are outside Europe. It operates in **354 facilities** and has a ratio of **93 beds per facility**.

€1,374 Bn

+6,3%

2018 Revenue

vs 2017

26,3%

EBITDAR

14,1%

EBITDA

3,2%

Net Income

No info

Fully owned property

56%

Revenues France

0%

Home Care revenues

2 LNA Santé in a Nutshell

- The final assessment of LNA Santé is that it is constrained mainly by its geographic diversification (Annex 4). The firm is 5 times smaller than the marker leader in France - Korian - and is highly concentrated in France (94% of its revenues), while the main players are present in more than 2 countries. LNA Santé is less diversified than the larger peers however it operates in a market with high barriers to entry. LNA Santé operates in a competitive and highly fragmented market where consolidation tends to benefit the existing operators.
- The firm has a competitive disadvantage compared to the top 3 providers - Korian, Orpea and Domus VI, in terms of scale and operating leverage (Annex 4) - but an **advantage in terms of profitability**. The group has a strong track-record of profitability growth, partly through the acquisition of facilities and ability to integrate synergies into its network. The stable outlook of the market reflects that LNA Santé will keep operating in a stable and predictable environment, continuing its track of **strong pricing** in the market and maintaining high occupancy rates while constructing new facilities.

Financial Overview



FINANCIAL OVERVIEW | Income Statement

LNA Santé has been growing at a CAGR of 8,6% from 2014 to 2018. Despite incurring in occasional bolt-on acquisitions, this growth was mainly driven by organic supply and demand effects



| Revenues (millions €) | 2014 | 2015 | 2016 | 2017 | 2018 |
|-----------------------------------|-------|-------|-------|----------|----------|
| Assisted Living Facilities | | | | | |
| Revenues | 174,4 | 192,6 | 214,5 | 225,1 | 233,6 |
| % Total Revenues | 58% | 54% | 54% | 54% | 53% |
| # Facilities | 43 | 44 | 44 | 44 | 44 |
| # Beds per Facility | 91 | 97 | 98 | 99 | 101 |
| Avg Daily Price Paid | 122 | 124 | 136 | 141 | 144 |
| Aftercare & Rehab | | | | | |
| Revenues | 80,4 | 108,4 | 121,2 | 127,4 | 137,4 |
| % Total Revenues | 27% | 31% | 31% | 31% | 31% |
| # Facilities | 12 | 13 | 13 | 12 | 13 |
| # Beds per Facility | 117 | 122 | 129 | 145 | 140 |
| Avg Daily Price Paid | 157 | 188 | 198 | 200 | 207 |
| Hospitalisation at Home | | | | | |
| Revenues | 22,4 | 26,6 | 31,0 | 34,4 | 38,7 |
| % Total Revenues | 7% | 8% | 8% | 8% | 9% |
| # Visits Sold | | | | 135312,0 | 148339,0 |
| Avg Price | | | | 254,5 | 260,8 |
| ALF Belgium | | | | | |
| Revenues | 24,7 | 26,5 | 27,0 | 27,0 | 27,4 |
| % Total Revenues | 8% | 7% | 7% | 7% | 6% |
| # Facilities | 6 | 5 | 4 | 4 | 4 |
| # Beds per Facility | 106 | 123 | 139 | 139 | 139 |
| Avg Daily Price Paid | 106 | 118 | 133 | 133 | 135 |
| Non Core - Real Estate | | | | | |
| Revenues | 54,2 | 70,7 | 81,2 | 72,8 | 101,7 |

- ### Revenues
- During the year of 2018, LNA continued its organic and external growth with an operating fleet that has been increasing in the last 5 years.
 - The 'Real Estate' caption reflects the non-operating revenue stream which has to do with the operating model of the company: this line is used only to control the quality of the venues that LNA operates in. Increasing the revenues is not and objective, as this is merely auxiliary. This caption reflects the effort made by LNA to have a fully refurbished park of beds.
 - Total Variation in sales was 10,2% where 4,4% was due to organic growth.
 - This was mainly driven by a very high occupancy rate (almost 98,5%) in its well established 'Comfort Range' in the ALF segment. Furthermore, the 'Aftercare & Rehab' as well as 'Home Care' segments have experienced strong organic growth.

4,4% organic growth = 1,5% price increase + 2,9% volume increase

| (millions €) | 2017 % Sales | 2018 % Sales | Total Variation | Organic Growth |
|--------------|-----------------|-----------------|--------------------|-------------------|
| ALF France | 225,1 € 54,4% | 233,6 € 53,4% | 6,3% | 1,7% |
| ALF Belgium | 27,0 € 6,5% | 27,4 € 6,2% | 1,5% | 0,1% |
| ACR | 127,4 € 30,8% | 136,7 € 31,4% | 7,7% | 1,6% |
| Home Care | 34,4 € 6,5% | 38,7 € 8,9% | 12,2% | 1,0% |

FINANCIAL OVERVIEW | Income Statement

LNA benefits from a relatively low fixed cost base. Most of the expenses scale due to the increase in the operating activity of the company



| Costs (millions €) | 2014 | 2015 | 2016 | 2017 | 2018 |
|-------------------------------------|-------------|-------------|-------------|--------------|--------------|
| Core | | | | | |
| Personnel Expense | (160,3) | (187,2) | (208,7) | (217,0) | (230,7) |
| % Total Core Revenues | 98,3% | 97,0% | 103,4% | 47,3% | 48,9% |
| External Purchases & Expenses | (58,6) | (72,1) | (75,7) | (78,8) | (81,9) |
| % Total Core Revenues | 35,9% | 37,4% | 37,5% | 17,2% | 17,4% |
| Other Operating Income and Expenses | (7,6) | (10,7) | (11,5) | (14,1) | (14,0) |
| EBITDAR | 75,9 | 85,9 | 98,7 | 104,1 | 110,7 |
| EBITDAR mg | 25,1% | 24,3% | 25,1% | 25,2% | 25,3% |
| Rents | (44,8) | (50,9) | (53,9) | (58,2) | (61,8) |
| EBITDA - Core | 31,1 | 35,0 | 44,8 | 45,9 | 48,9 |
| Non Core - Real Estate | | | | | |
| Personnel Expense | (1,6) | (1,9) | (2,2) | (2,3) | (2,5) |
| External Purchases & Expenses | (70,8) | (83,1) | (70,6) | (64,4) | (103,9) |
| Other Operating Income and Expenses | (4,6) | (4,5) | (6,1) | (2,4) | (0,8) |
| EBITDA - Non Core | 2,6 | 6,4 | 1,9 | 0,4 | 1,3 |
| Depreciation & Amortization | (10,6) | (9,6) | (11,8) | (7,3) | (8,2) |
| EBIT | 23,1 | 31,8 | 34,9 | 39,0 | 42,1 |
| Net interest result | (13,4) | (9,7) | (8,2) | (7,8) | (6,4) |
| EBT | 9,7 | 22,1 | 26,6 | 31,2 | 35,7 |
| Income Tax Expense | (2,7) | (10,7) | (3,9) | (6,0) | (13,3) |

Variable Costs

- ‘Personnel Expenses’ are mainly driven by the activity of Assisted Living Facilities, After Care & Rehab and Home care. The growing number of facilities required LNA to keep increasing the number of employees.
- LNA has been investing heavily in the expertise and qualifications of the staff. Home care staff is required to handle very carefully their patients given their acute medical conditions. Furthermore, high levels of qualifications are required.
- ‘External Purchases and Expenses’ contains the cost of building new facilities and expanding or restructuring old ones. From 2017 to 2018, LNA increased the park of established beds by +667. This reflects the effort that the company puts into providing high quality accommodation (Annex 5)

FINANCIAL OVERVIEW | Balance Sheet

LNA Santé has improved the conversion of its investments into sales. Given the operating model, the firm has faced strong cash generation in the past five years. Furthermore, the company's asset-light strategy is reflected on a small value of PP&E



| Balance Sheet (millions €) | 2014 | 2015 | 2016 | 2017 | 2018 |
|------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Assets | | | | | |
| Inventory | 97,9 | 117,1 | 106,5 | 93,9 | 102,3 |
| Receivables | 106,0 | 75,9 | 87,0 | 82,0 | 91,7 |
| Cash and Cash Equivalents | 36,2 | 69,6 | 103,1 | 162,8 | 122,1 |
| Deferred Tax Assets | 2,4 | 2,6 | 1,8 | 2,7 | 3,5 |
| Total Current Assets | 242,4 | 265,2 | 298,4 | 341,4 | 319,5 |
| Intangible Assets | 198,8 | 216,8 | 219,5 | 222,0 | 233,7 |
| Goodwill | 88,3 | 87,7 | 87,1 | 87,0 | 92,9 |
| Net Property Plants and Equipments | 52,3 | 59,4 | 61,5 | 71,1 | 74,3 |
| Financial Assets | 2,4 | 2,6 | 2,0 | 1,7 | 2,3 |
| Total Non Current Assets | 341,9 | 366,5 | 370,1 | 381,9 | 403,2 |
| Total Assets | 584,3 | 631,8 | 668,4 | 723,3 | 722,7 |

Accounts Receivables and Inventories

- Looking at current assets it is possible to see that the firm has decreased its 'Accounts Receivables' from 2014 to 2018. This trend will improve the financial health of the firm.
- Furthermore, the 'Inventories' have also been changing throughout the years, recovering from a decrease in 2017 to €122 M in 2018 reaffirming the financial health of the firm.

Property, Plant and Equipment

- LNA Health has decided not to hold its 'Property, Plant & Equipment' assets in the long-term and operate mainly in a mechanism of outsourcing (Annex 6).
- In 2018, this caption accounted net €74,27 M, corresponding €49,23 M to PP&E for operations and the remaining for real state. The variation from 2017 to 2018 is €3,16 M, which is mainly due to acquisitions.
- In gross values, acquisitions accounted to €8,9 M, relatively to:
 - Acquisition of a license to operate a nursing home named Caudacienne Villa (under construction);
 - The full acquisition of Moulin Vert Rehabilitation Center;

Goodwill and Intangibles

- The movements of 'Goodwill' are related to the acquisitions and price adjustments. The gross value of those acquisitions accounted €6,3 M but there was a loss in value amounting to €5,9 M corresponding to the difference of this caption between 2017 and 2018 (Goodwill).
- 'Intangible Assets' are related to the company's operations and include concessions and patents, operating licenses and others. The majority of the acquired intangible assets correspond to operating licenses, whose life was considered infinite, with a value of €229,5 M and software and information systems of €3,8 M.

FINANCIAL OVERVIEW | Balance Sheet

LNA's position in the market has allowed to develop better trade agreements with its suppliers resulting in an improvement in the cash conversion cycle over the last five years



| Balance Sheet (millions €) | 2014 | 2015 | 2016 | 2017 | 2018 |
|--------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Liabilities | | | | | |
| Acruals and Deferrels | 49,5 | 49,4 | 41,7 | 38,0 | 44,2 |
| Payables | 42,0 | 41,0 | 43,4 | 50,0 | 62,0 |
| Current Debt | 213,9 | 218,1 | 206,6 | 238,6 | 222,3 |
| Total Current Liabilities | 305,4 | 308,6 | 291,6 | 326,6 | 328,5 |
| Provisions for Risks | | 12,7 | 12,6 | 11,0 | 7,9 |
| Non-Current Debt | 154,9 | 177,2 | 189,1 | 186,7 | 170,7 |
| Other Non-Current Liabilities | 6,5 | 9,6 | 11,5 | 11,2 | 11,3 |
| Total Non Current Liabilities | 173,9 | 199,4 | 213,1 | 208,9 | 189,9 |
| Total Liabilities | 479,2 | 508,0 | 504,7 | 535,5 | 518,4 |

| Account Payables | | | | | |
|---|------|------|------|------|------|
| <ul style="list-style-type: none"> The firm has been increasing its 'Accounts Payables' and this improvement allied with the Accounts Receivables decrease has a positive impact in the cash conversion cycle. | | | | | |
| Days | 2014 | 2015 | 2016 | 2017 | 2018 |
| Cash Conversion Cycle | 176 | 141 | 124 | 102 | 97 |
| Collection Period | 109 | 65 | 67 | 61 | 62 |
| Holding Period | 111 | 111 | 91 | 78 | 76 |
| Payable Period | 43 | 35 | 33 | 38 | 42 |

Debt

- Due to its business, the firm holds debt from exploitation and real state. The latter accounted to 70% of the consolidated Net Debt in 2018.
- Short-term debt include financial leases that the company uses for its operations. The remaining amount of debt, both short and long term, is made of borrowings used to finance the capex needs.
- The operating financial debt contains a bilateral bank loan, an Euro PP bond, a syndicated loan and NEU PC (short-term marketable securities).

| (millions €) | 2014 | 2015 | 2016 | 2017 | 2018 |
|------------------------|-------------|-------------|-------------|-------------|-------------|
| Net Debt/EBITDA | 9.9x | 7.9x | 6.3x | 5.7x | 5.4x |
| Net Debt | 332,6 | 325,8 | 292,6 | 262,5 | 270,8 |
| EBITDA | 33,7 | 41,4 | 46,7 | 46,3 | 50,2 |

FINANCIAL OVERVIEW | Cash Flow Statement

The operating cash flow generated by LNA Santé represented 9% of its total revenues in 2018. The FCF decreased in 2018 due to investments in CAPEX to expand the firm with 2 new facilities and rehabilitation of existing ones

| Cash Flow Statement (millions €) | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|-------------|--------------|-------------|-------------|---------------|
| EBIT | 22,7 | 31,8 | 34,9 | 39,0 | 42,1 |
| margin % | 6% | 7% | 7% | 8% | 8% |
| Depreciations | 10,6 | 9,6 | 11,8 | 7,3 | 8,2 |
| EBITDA | 33,3 | 41,4 | 46,7 | 46,3 | 50,2 |
| margin % | 9% | 10% | 10% | 10% | 9% |
| Change in Working Capital | | -9,8 | -1,9 | -24,2 | 6,8 |
| Cash Flow from Operating Activities | | 51,2 | 48,6 | 70,5 | 43,4 |
| Current Tax | | -10,7 | -3,9 | -6,0 | -13,3 |
| Financial Result | | -9,6 | -8,2 | -7,8 | -6,4 |
| Cash Flow available for Investing | | 30,9 | 36,5 | 56,7 | 23,8 |
| Investment in Fixed Assets | | 34,3 | 15,3 | 19,1 | 29,5 |
| Capex | | 34,1 | 16,0 | 19,3 | 28,9 |
| Financial Investments | | 0,2 | -0,6 | -0,2 | 0,6 |
| Change in Dividends and MI | | -4,1 | -11,5 | -3,1 | -5,7 |
| Unlevered Cash Flow | | (7,5) | 9,5 | 35,2 | (11,6) |
| % EBITDA | | -18% | 20% | 76% | -23% |

Operating Activities

- EBIT growth has significantly slowed down from 2015 to 2018. This is a sign that LNA may be experiencing some difficulties scaling its business with the existing facilities and operational margins. This shows that the company is in need of urgent expansion or a turnaround in the cost structure (can be a sign of over capacity of personnel).
- The level of networking capital is highly responsible for the variance of the Unlevered Cash Flow. 2017's NWC decreased dramatically, which resulted in a very positive impact on the cash flows. The OCF decreased in 2018 due to a positive change in NWC in this year.
- The effective tax rate of 2018 was roughly 36%, causing the 'Operational Taxes' to be the highest of the past 5 years. This happened due to the revaluation of deferred taxes that occurred which were caused by the gradual reduction of tax rates on companies in France.

Investing Activities

- CAPEX investments are mainly composed of the maintenance of the overall condition of the facilities under financial lease. These costs play a big role in keeping the quality standards of LNA high.
- In 2015 and 2018, the firm had negative FCF mainly due to an increase in CAPEX investments, both were years of expansion. In 2018, LNA constructed two new facilities and invested in the expansion of existing ones.

Individual Paper | Private Equity Challenge - Duarte Diniz

Developing this project turned out to be a quite enlightening on how hard it can be to infer on the feasibility of such a deal. For me, one of the biggest challenges that we faced was related to the industry in cause. Having to learn the ‘ins and outs’ of such a niche industry posed some difficulties especially because this is a business model that is highly regulated by local governments. In the end, the team experienced a very steep learning curve that allowed to deliver a self standing project that even someone who is not aware of some concepts would understand.

Personally, managing our schedules as a group, as well as managing the instructors very busy weekly routine, was one of the soft skills that was more intensely developed and debated within our group. As a group, we manage to surpass each one’s limitations and truly work for a common goal. We believe that this mimics a real-life scenario, where a PE team must maintain cordial relationship with all stakeholders.

Most of the core hard skills used in this project were developed during our Masters program. As expected, the Private Equity course played the biggest role. Furthermore, courses such as Corporate Finance, Financial Statements Analysis and Financial Modelling also provided very important inputs.

Overall, I would recommend this experience. It is impressive how an individual can learn when working with others who think differently.

Duarte Azevedo de Brito Marques Diniz