Can the financial health of the care sector withstand the impact of corona?
Foreword

The healthcare sector rating remained stable in 2019: bbb+. The return declined slightly and we anticipate a further decrease due to late filings. The absence rate increased again, from 5.9% to 6.2%. The rise in the cost of external staff deployment was brought to a halt, despite the higher absence rate; in fact, it fell in 2019, however marginally. This decrease, from 6.9% to 6.7%, is hopefully a turning point after years of consecutive increases. Lower staff turnover is also a related factor.

Benchmark supplemented with a corona stress test

It feels a little strange to review 2019 and - based on these facts and figures - preview 2020. We know that the impact of the coronavirus this year will make 2020 something completely different from both a financial and operational perspective. For this reason, we have supplemented this edition of the Benchmark with an extra corona chapter. With the help of scenario analyses, we have attempted to estimate the impact that corona has had on the financial position of Dutch healthcare institutions.

Comparable statistics adjusted where appropriate

This benchmark is based on statistics that were filed with DigiMV at the end of July 2020. A total of 453 healthcare institutions have been included in this benchmark, fewer than usual as a result of the nationwide delay in filings caused by corona. Fortunately, the healthcare institutions we examined represent over 85% of the total size of the sector. That is sufficient for a reliable overall assessment, even though it may not be the case in all subsectors reviewed.

In order to easily compare these 2019 statistics with one another, we have also incorporated later 2018 filings in this benchmark. That means the 2018 dataset now comprises 746 healthcare institutions, 72 more than the 674 we worked with last year. This also means that the comparable statistics can vary in part from last year’s publication. For an accurate insight into the 2019 findings, we have incorporated the 2015 through 2018 numbers as ready reference – providing the bigger picture of developments over the last five years.

Benchmarks available in English again

The considerable international interest in our Benchmark Dutch Healthcare has once again led to the publication of an English-language edition of our benchmark this year as well.

We wish you plenty of reading pleasure and useful new insights.

Rob Leensen
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EY Accountants

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Customized benchmark and rating report

You can also apply for a specific EY report. If you provide us with your name, we will customize your benchmark report to your wishes. We will then discuss this report with you in a face-to-face meeting. You can find more information about this process at the back of our benchmark.
Can the financial health of the care sector withstand the impact of corona?

Benchmark Dutch Healthcare 2020

Care sector rating remains stable at bbb+ despite a stronger score on financial key indicators

Half of the subsectors have a rating of a- or higher. Last year, only two (UMC and the regional institutions for protected living) had a similar rating

The average rating is bbb+ whereby the healthcare sector qualifies as a creditworthy sector

Notable difference in ratings among northern and southern provinces
Healthcare sector rating remains stable at bbb+

The Dutch healthcare sector has an average rating of bbb+, implying that its ability to attract investor interest continues unabated. Operational challenges - primarily related to staffing - are becoming an ever-increasing threat, however. The absence rate rose to 6.2% this year.

The bbb+ rating means that ‘healthcare’ can count on the readiness of banks to fund the sector. This willingness extends primarily to the funding of real estate. Medical equipment is still largely funded elsewhere, not to mention where the funding of innovation comes from. For important investments such as these, healthcare institutions mostly need to turn to a limited number of small, national subsidy schemes - or foot the bill from their own resources.

All subsectors therefore score at least investment grade on average. However, this does not automatically imply that every individual institution complies with this rating and can easily attract capital at favorable conditions. Fewer investors will be standing in line should a rating slip below bbb- because they will translate the higher risk profile into higher tariffs and less favorable conditions, that can surge to speculative levels.

The specific situation of a healthcare institution will ultimately determine the rationale for this assessment.

We do not see huge shifts across the matrix. Six of the 10 subsectors actually climb a notch. It is only the general hospital rating that takes a step back, to bbb. And no fewer than five subsectors come in with a rating of at least a - whereas last year only two subsectors were at that level, the academic hospitals and the regional institutions for protected living. The sluggish performance of hospitals in this respect is a matter of concern inasmuch as the impact of the collective labor agreement and corona is the largest on these subsectors - and has not yet been processed into the equation.

The northern provinces and Zeeland are also conspicuous as they are the only regions with a rating of a- or higher. There is no simple explanation for this; can we attribute it to demographic characteristics or is the role of the dominant healthcare insurance company the determining factor?

In almost all subsectors, operational challenges as a result of a rising absence rate and increasing external staff deployment are leading to further pressure on financial quality. An explanation for this may be the significant impact of the aging population trend. On the one hand, there is evermore demand for care while on the other, the supply of available hands on deck is declining.

The sector as a whole is facing the challenge of capitalizing on this aging population situation by implementing innovative solutions based on a long-term strategic plan. And this requires considerable financial assets. Now that many institutions have pushed through far-reaching optimization in terms of business continuity, more effort is needed to generate the financial clout to make the necessary investments in real estate and future innovation.
Return in 2019 declined from 1.55% to 1.46%. We expect institutions that have not yet filed to further increase pressure on return. For the second year in a row, return decreased. Although this return is sufficient for most healthcare institutions to comply with the arrangements agreed with banks, it provides insufficient buffer to absorb the impact of corona. We therefore anticipate that many institutions will need to talk to their banks again at the end of 2020 to discuss the option of a waiver should they not achieve their ratios.

Sustained and favorable real estate developments keep institutions financially healthy. Funding has never been so inexpensive, a consequence of the extremely low interest rates. Moreover, capital gains were generated in 2019, predominantly in mental healthcare, and the number of write-offs in 2019 was at a historic low.

In addition, we have witnessed lower investment over the course of the last few years, and this has had an impact on impairment costs, cutting the cost of capital. This in turn resulted in a 1.7 percentage point of operating income over the last five years but has not led to a rise in return. That means these gains have been used to pay higher staffing costs. This is not sustainable, since the compensation for cost of capital is up for negotiation shortly and the silverware can only be sold once.

The corona crisis is the source of much uncertainty. Agreement has been reached for a number of funding streams, but this is by no means the case across the board. A scenario analysis provides the following cautious glimpse into the perspective for 2020 and 2021. It is not inconceivable that the rating related to 2019 will decline to a maximum of bb+ but a minimum of bbb. Liquidity will also be pressured and the buffer for cash and cash equivalents will fall under the desired level of two to three months of staffing costs. Solvency, however, is likely to remain on par.

The scenario analysis is based on revenues although its impact can also be expressed in terms of cost. Consider for example the catch-up production or additional cost caused by corona that is unlikely to be (fully) covered.

The minimum assumption anticipates that 2020 return will amount to minus 1.6%. In the best-case scenario, a return equal to that of 2019 is conceivable. Signals emanating from the market suggest that a minimum return of 0% is the objective. The following year - 2021 - is even more uncertain: return could drop to as much as minus 9.5%. The solvency of the healthcare sector is such that it can absorb a ‘hit’ on equity capital although as a consequence of the minimum scenario, solvency will decrease in 2021 to just above 25%.
Developments related to the absence rate are reaching alarming levels and are impacting the required returns that safeguard the quality of healthcare. Sectoral staffing challenges demand structural solutions.

The Dutch healthcare sector has suffered from staff shortages for years. The absence rate in almost all subsectors has risen throughout the year under review. Although turnover and deployment of external staff came in between stable to slightly increased last year, it is too early to talk of a tipping point. Compared to five years ago, the staffing challenges in terms of absence rate, turnover and external staff turnover are substantially larger.

Healthcare institutions typically deploy external staff to address the scarcity of staff. This is, however, not exactly a structural solution. Alongside the fact that it is more expensive to deploy external staff than payroll employees, the introduction of the DBA Act (greater labor 'flexicurity') saddles employers with both fiscal and financial risk.

To reduce or at least manage staff scarcity and the related risks for the funding and quality of healthcare, we have drawn up the following recommendations:

- Increase the part-time factor. Research shows that (partial) staff shortages can be resolved by contract extension. The same survey indicates that employees experience quite some hurdles when attempting to extend their contract. Government and employers need to work to accelerate the removal of these obstacles.

- Make use of the benefits of regional cooperation with regard to job positions that are hard to fill. Examine healthcare options that can be implemented outside the walls of traditional healthcare institutions – consider for example eHealth applications and the exchange of staff with regional partners up and down the care chain.

- Restrict the deployment of self-employed persons to situations in which 'true' independence is practicable. Build a unilateral changes clause into contracts that enables adaptation should new legislation regarding the self-employed be passed into law.

- Position staffing high on your strategic agenda and focus on strategic staff planning. Healthcare is in a constant state of transformation and innovation. This has a significant impact on a care professional's daily work. Establish in a timely fashion how these developments impact compilation and competences of healthcare staff.
Introduction

Due to the extraordinary developments related to corona, we offer a one-time analysis based on 2020 benchmark statistics (drawn from 2019 annual accounts). This analysis provides a cautious, initial perspective with regard to 2020 and 2021. The corona crisis has implications for one and all, including the healthcare sector. Agreements have been concluded relative to some funding streams, yet for others the likelihood of these cash flows materializing is still uncertain. Moreover, horizons and arrangements differ: Wiz impacts the policies of the Dutch healthcare authority (NZa) while the agencies that determine the healthcare insurance contribution (Zvw) also need to clinch the deal with healthcare insurers.

Now that the acute first phase would appear to be coming to an end, we find ourselves at the moment of writing in a ‘new’ normal. The new reality of 1½ meters. For many healthcare institutions, that means 100% delivery cannot always be 100% guaranteed. Waiting rooms may not be overloaded and access routes limit footfall. Staff deployment abounds with conditions and restrictions, while the absence rate is surging.

In addition, 2021 itself is full of uncertainty; none of the arrangements currently in force take a possible impact in 2021 into account. A number of questions come to the fore: how will healthcare develop in 2021? Can we expect a catch-up effect? When will a vaccine become available? Will we ever return to the ‘old’ normal? Are institutions sufficiently equipped to transition healthcare into the 1½-meter economy for as long as is required? These are only a few of the burning questions that cause uncertainty when healthcare institutions look further into the future at the potential impact of corona.

Based on a number of assumptions, we have looked at the impact of corona on the return of the sector as a whole. We have also reviewed solvency, liquidity and the impact of both on sectoral rating. Last but not least, we examined the relationship between tangible (material) costs as a percentage of overall cost. These ‘tangibles’ are regarded as the most flexible and as such are able to impact the short and mid-term and absorb the potential impact of corona after 2020.

Nothing is cast in stone, but we hope that the fundamentals presented in these analyses help to paint the contours of a bigger picture.
Methodology
The 2019 financial statements as recorded in the Benchmark Dutch Healthcare 2020 are the departure point for both 2020 and 2021. When we talk about a specific scenario, this means a reduction of the result from operations – or, as noted previously, operating income minus operating cost. Specifically, we apply the percentage over revenues generated in 2019, although this can also impact cost. This leads in turn to a new and revised results from operations for 2020 and 2021.

From 2019 to 2020
Operation: Revenues may vary depending on a given assumption, but costs remain similar to those in 2019. This applies to write-downs as well as financial income and expenditure. We anticipate that any cost savings achieved in 2020 will be eliminated by additional charges as a result of corona.

Balance sheet: We had made the assumption that 2020 would be identical to 2019 in determining the new balance sheet. Commonality too with respect to impairments and amortization. Investments, however, cannot be seen as equivalent to 2019, but are inferred on the basis of an investment ratio (= total investments / total operating revenues). In this way, any extremes can be ‘normalized’. The investment ratio is then taken as the basis for approaching the investments. At an overall level, investment ratio amounts to 5.5% of total operating revenues. The underlying subsector specific investment ratios are used to arrive at a more precise indicative investment volume. It goes without saying that we have taken the impact of the simulated scenario into account.

From 2020 to 2021
Operation: We use exactly the same methodology for 2021 as we do for 2020. Revenues vary according to a given scenario, while costs remain identical to 2019.

The scenarios
For both 2020 and 2021, we have made our calculations based on minimum and maximum assumptions. Bandwidths illustrate our expectation as to how the parameters can potentially develop in 2020 and 2021 respectively.

2020: The minimum assumption amounts to 97% of 2019 revenues – in other words, a revenue shortfall of 3%. This worst-case scenario has seen the light of day because certain agreements were concluded in 2020 and signals emanating from the market suggest that a minimum of 0% return is the objective. The maximum assumption amounts to 100% of 2019 revenues – put differently, healthcare institutions generate almost identical results to 2019.

2021: Since 2021 is so full of uncertainty, the minimum assumption amounts to 90% of 2019 revenues, or a revenue loss of 10%. However, this should not be interpreted as implying that 2021 will result in a revenue loss of 10%. The loss can also be attributed to higher cost – for example, additional charges for catch-up exercises – that possibly are not or not fully covered by a potential increase in healthcare demand. The best-case scenario amounts to 100% of 2019 revenues, the implication being that institutions generate almost identical results as in 2019.

The results
Rating
For 2020, it is not inconceivable that the rating for the sector as a whole will decline. We anticipate that the rating will be set somewhere between bb+ and bbb (2019: bb+). As a consequence of this worst-case scenario, the 2021 rating could fall yet further, although we expect it to remain above bb+. In the best-case scenario, the rating will remain identical to that of 2020: bbb.

Return
The impact of corona can be seen most vividly on the return. Whenever revenues threaten to drop off or are not compensated, costs can only be marginally influenced in the short term. The return takes a considerable ‘hit’.

Based on 2020 assumptions, we expect a minimum return of minus 1.6% and a maximum return of 1.5%. With the current arrangements in place, the sector should in principle be able to achieve results similar to those of 2019. As stated previously, signals emanating from the market suggest that a minimum 0% return is the objective.

Since we are assuming a worst-case scenario in 2021 of 90% (of 2019 revenues), the return can decrease to minus 9.5% compared to 2019 (unless appropriate agreements can be forged in the meantime). If ‘maximum scenario’ is the assumption for 2021, return could come in fully in line with 2019 at 1.5%.
The results

Solvency

Solvency can rise as easily as it can fall. In 2020, the worst-case scenario assumes that solvency will remain similar to 2019. In the best-case scenario, solvency can rise slightly. Any 2020 increase can be primarily attributed to the normalization of investment in combination with a stable return of 1.5%. In 2021, solvency can further increase in the event of a best-case scenario.

Return is likely to come in at 2019 levels, causing equity capital to rise. Although solvency is seen as falling in the minimum scenario for 2021, other assumptions suggest it will remain above the norm of 25% that financial institutions tend to regard as the tipping point.

Liquidities

Liquidities will be further pressured according to the ratio of liquid assets to staffing costs. Typically, a liquid asset buffer of two to three months of staffing costs is assumed. In the minimum scenario for 2020, the buffer declines to under two months. And in 2021, the decrease is even more worrisome: potentially under one month.

However, not all institutions will have liquid assets at their disposal. In the worst-case scenario, approximately 19% will have no more liquid assets in 2020; in 2021, it is not inconceivable that this percentage can rise to 46%.

The best-case scenario suggests that only 11% will no longer have access to liquid assets, although in 2021 this could rise to 17%. It is of the essence that timely negotiations are undertaken with financial institutions able to provide the necessary liquidity.

Flexibility costs

Costs can typically be allocated to three different categories:

<table>
<thead>
<tr>
<th>Staffing</th>
<th>‘Tangibles’</th>
<th>Cost of capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages &amp; salaries</td>
<td>Client-related costs</td>
<td>Depreciation</td>
</tr>
<tr>
<td>Social security charges</td>
<td>Board &amp; lodging</td>
<td>Interest</td>
</tr>
<tr>
<td>Pension</td>
<td>Maintenance/energy</td>
<td>Rent/leasing</td>
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<tr>
<td>Other</td>
<td>Miscellaneous</td>
<td>Exceptional write-downs</td>
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<td>External staff</td>
<td>Honorarium</td>
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We have assumed cost at 100% of 2019 costs for the benefit of this impact analysis. For the simple reason that we anticipate healthcare institutions will have little or no flexibility in short to mid-term cost assumptions.

Institutions able to achieve cost reduction in the short to mid-term will typically do so within the ‘tangibles.’ Here too the rule applies that the level of flexibility depends on previously-agreed arrangements.

Staffing costs are here to stay and can even increase due to external staff deployment as a result of a higher absence rate thanks to corona. Generally speaking, the cost of capital will also have to be met. Less investment in 2020 and 2021 can lead to a decline in depreciation charges, although current write-offs will continue unabated. And although this can be an unintentional side effect, a new problem can be created: that of overdue maintenance.

The infographic in the right-hand column displays tangible costs as a percentage of overall cost. It is evident that hospitals bear a larger share of tangible costs than any other subsector. This can be attributed to the fact that the hospital sector has a higher proportion of client-related costs.

Taking the entire healthcare spectrum on average into account, tangible costs compared to overall costs amount to approximately 25%.

In conclusion

On a number of recent occasions, we have helped to map the consequences of corona at subsector level as well as institutionally. Insight of this nature offers the precise, practical advice needed when discussing with relevant parties how best to identify the corona impact. This enables temporary adjustment and new, customized agreements required to withstand the challenges confronting us in these extraordinary times.

During the compilation of this analysis, it became increasingly clear that it is of crucial importance to most institutions that they gain insight into their own position and are able to envisage and assess the opportunities and threats. The recommendations we provide below require a pro-active approach:

- Map the impact of corona as vividly as possible
- Enter into discussion with stakeholders
- Get a grip on cost, particularly the degree of flexibility in both the short and mid-term
- Keep a close eye on liquidities and take appropriate action in a timely fashion
- Revisit your investment budget, not only taking financial feasibility into account, but also considering (new) dimensions made necessary by, for example, the 1½ meter world we now live in.
1.1 Ratings

Academic hospitals score highest with aa+ rating

• The rating of academic hospitals rises slightly to aa+ (2018: aa). In 2019, academic hospitals converged: of the institutions surveyed, only two academic hospitals score an aaa rating; the others score an aa+, aa or aa+.
• The academic hospital average is still higher than the healthcare sector average.
• Key financial and operational indicators rose. From an operational perspective, the academic hospitals come in above the healthcare sector’s average.
• The number of institutions surveyed amounted to 8 (2018: 8).
1.2 Financial key indicators

Return
The academic hospitals’ return declined by 44% in 2019. The EBITDA ratio decreased by 7.3% on average. Average net results amounted to approximately €9.9 million in 2019 compared to about €17.8 million in 2018.

Revenues
Revenues increased in 2019 by €59 million (+5.4%) on average, and amounted to about €1.2 billion. The 4.9% average increase in staff costs was fully in line with this development. The increase in staff costs per academic hospital amounted to €32 million on average.

DSCR and Net debt to EBITDA
The decrease in EBITDA is reflected in both the debt service coverage ratio (DSCR) and the Net debt to EBITDA. When the DSCR declines, the Net debt to EBITDA rises. However, both ratios remained within the prevailing banking limits that we are currently seeing in the market. Interest charges declined substantially (by 6.7%) due to historically low interest rates.

Solvency
Solvency increased yet further in 2019, a rising trend witnessed in almost all subsectors. Six of the eight academic hospitals saw an improvement in solvency. That of the two academic hospitals where the solvency ratio declined, remained above the standard level. The balance sheet total increased by 2.3% on average, while equity capital rose by 6.9% on average. The rise in balance sheet total can be attributed in part to an increase in longer-term debt of 3.6%.

Loan to value
Loan to value rose. The primary reason for this an increase in longer-term debt of 3.6% compared to a decline of 0.5% in tangible fixed assets. The Loan to value is higher than the healthcare sector average, but remains below the conventional standards (70%) currently visible in the market. Impairment losses in 2019 amounted to €3.4 million (2018: €14.0 million).

Current ratio
Current ratio further improved in 2019 and remained well above the healthcare sector average, contrary to the situation in general and top clinical hospitals, where the Current ratio declined.
1.3 Operational key indicators

Academic hospitals score well from operational perspective

Competitive position and revenue growth
The high operational score of academic hospitals can be attributed primarily to a better competitive position and a growth in revenue. Academic hospitals typically face competition from general, specialist and top clinical hospitals. The geographic spread (see map on the right) confirms that the competitive position of the academic hospitals within the Dutch healthcare sector remains strong. All academic hospitals – with one exception – generated revenue growth of at least 5%.

Absence rate
The absence rate is fully in line with the previous year. The academic hospitals remain way below the sector average.

Employee turnover
Employee turnover declined slightly in 2019. This was the first time that employee turnover decreased. Although the drop in employee turnover can be seen throughout the sector, it was also evident at the academic hospitals. Academic hospitals need to adopt a pro-active stance with respect to employee turnover.

Staff deployment
The revenue increase led to greater deployment of external staff. In 2019, the percentage of total staff deployment remained almost identical to that of 2018. Academic hospitals continue to perform better in this respect than the healthcare sector average.

Deployment of external staff ratio
The slight decline in employee turnover did not lead to reduced deployment of external staff. In 2019, the average cost of external staff deployment at each academic hospital amounted to €40.6 million. This is an increase of 9.1% compared to 2018. On average, academic hospitals in 2019 came in under the deployment of external staff ratio for the healthcare sector as a whole.
2.1 Ratings

Top clinical hospitals score higher on average while rating remains the same

- Top clinical hospitals see their average score slightly improve in 2019.
- The outcome of the operational score is better than that of the financial score.
- Top-clinical hospitals with revenues of up to €300 million score higher than those with revenues higher than that.
- Top-clinical hospitals in the provinces of Utrecht and Friesland score higher than in the other provinces.
- The average rating – bbb – is identical to that of last year.
- The number of institutions surveyed amounted to 26 (2018: 26).

<table>
<thead>
<tr>
<th>Rating</th>
<th>Average score</th>
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<tbody>
<tr>
<td>bbb+</td>
<td>4.0</td>
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<tr>
<td>bbb</td>
<td>3.5</td>
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<td>bbb</td>
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2019 rating by revenue grade

- €150 to €300 mln
- €300 mln or more

2019 rating per province

- Average rating: bbb

Percentage of total

Average score

0 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%
0 10 20 30 40 50 60 70 80 90 100
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Can the financial health of the care sector withstand the impact of corona?
2.2 Financial key indicators

Returns decline slightly

Top clinical hospital return declined slightly in 2019. On the one hand, total revenues rose by 4.6%, but on the other depreciation, total operating results and staffing costs increased by 7.0%, 4.8% and 5.6% respectively.

In 2016, the lower return could be partially attributed to the provision for irregularity supplementary payout over leave days in former years. With a single exception, all top clinical hospitals generated positive results in 2019.

EBITDA increased compared to a year-earlier, although the ratio declined in comparison to a 2018.

DSCR and Net debt to EBITDA

The Net debt to EBITDA development showed improvement in 2019 whereas DSCR was fully in line with 2018. Should this trend persist in the years ahead, renewed investment and capital will be forthcoming to fund future innovation. Despite the current limited interest and debt-repayment capacity, investment in the last two years declined. Total investment in 2019 amounted to €675 million (2018: €678 million; 2017: €714 million).

Solvency satisfies the norm; Loan to value one of the highest in healthcare

Solvency continued to underpin the rising trend of recent years. This increase can be attributed to the addition of positive results.

There were still two institutions struggling with their solvency (under the critical level of 20%) ultimo-2019. There were three institutions in a similar position in 2018 and five in 2017. In 2019, only one institution reported negative results.

Loan to value

The Loan to value at top clinical hospitals is one of the highest of the entire healthcare sector – the medical rehabilitation centers are slightly higher – and comes in just under 70%.

This ratio implies that the largest portion of tangible fixed assets is financed with borrowed capital. Since 2015, a slight annual decline has been visible. Impairment losses decreased from €22 million in 2018 to €0.3 million in 2019.

Current ratio

The liquidity position of top clinical hospitals declined slightly in 2019, bending the rising trend visible between 2016 and 2018. Moreover, the Current ratio is lagging behind the healthcare sector as a whole and remains an area of attention for the top clinical hospitals.
2.3 Operational key indicators

Staff deployment in top clinical hospitals stable in recent years

Competitive position and revenue growth
As was the case last year, most top clinical hospitals are located in the province of South Holland, where much of the competition comes from. The adjacent visual shows that there is not always a correlation between competitive position and revenue growth in a given province. All provinces generated healthy revenue growth in 2019 compared to a year-earlier.

Absence rate
The absence rate is an important area of attention for top clinical hospitals, even though it falls below the sector average. We are witnessing a growing shortage of suitable care professionals and institutions are experiencing difficulty in generating output.

Top clinical hospitals would appear to have a better grip on their capacity planning, based on the deployment of both payroll employees and external staff.

Employee turnover
Employee turnover in 2019 remained almost identical to that of the previous two years. The slight decline was fully in line with the sector as a whole.

Staff deployment
In recent years, deployment of payroll staff at top clinical hospitals has remained truly stable. This indicates that it is possible to keep staff deployment in line with revenue growth, thereby controlling spend with respect to external staff deployment.

Deployment of external staff
Top clinical hospitals would appear to be able to keep tabs on external staff deployment. Employee turnover and the absence rate would appear to be unable to exercise a negative grip on the costs of external staff deployment. Moreover, the ratio remains well below the sector average.
03 General hospitals

3.1 Ratings

In 2019, the score of general hospitals declines from both a financial and operational perspective

- The bbb rating achieved by general hospitals in 2019 shows a decrease compared to a year-earlier.
- Hospitals in Friesland, Drenthe and Limburg are doing significantly better than average (above a) and score higher than a year-earlier.
- General hospitals with revenues between €25 million and €150 million, and those with revenues exceeding €300 million, achieved the best rating in 2019.
- In line with 2018, general hospitals this year scored better from a financial than an operational perspective.
- The financial performance of general hospitals is better than that of top clinical hospitals. Operationally speaking, the situation is the other way around.
- There is no question of a normal distribution in 2019, contrary to a year earlier.
- The number of institutions surveyed amounted to 32 (2018: 39).
3.2 Financial key indicators

Return at average level of healthcare sector

Return
General hospital return declined in 2019 and is now on a par with the healthcare sector average. The EBITDA ratio also dropped to just above the sector average. This return was achieved in a declining market. The lower returns can be attributed to a more moderate increase in overall revenues (average: 8.0%) compared to the increase in staffing costs (average: 8.8%). The increase is largely attributable to general hospitals taking over patients from institutions that went bankrupt ultimo-2018 and due to the increase in subsidies (primarily quality impulse funding). Average revenue in 2019 amounted to €198 million while average staffing costs came in at €101 million. Only two general hospitals were loss-making in 2019.

Revenues
Net results in 2019 declined compared to a year-earlier. Average return per institution was €2.9 million in 2019. Not only were net results down, but operating results (before changes in equity) decreased in 2019 as well. Average operating results in 2019 amounted to €4.8 million. At €1 million, write-offs in 2019 were significantly lower than in 2018 (€6.4 million).

DSCR and Net debt to EBITDA
Both EBITDA and DSCR in 2019 approximated 2018 levels. The net debt position continued to decline. Average 2019 repayments increased by 2%. Both DSCR and Net debt to EBITDA ratios are comfortably within the banking standard and have a favorable impact on new funding applications.

Solvency
Solvency improved in 2019 and general hospitals were able to improve their equity capital by €1.2 million on average per institution. On the other hand, the balance sheet total decreased on average by €4.2 million. Despite the rise in solvency, the general hospitals lag behind the healthcare sector average, but score well above the accepted banking norms.

Loan to value
Loan to value decreased significantly in 2019. This can be attributed to the decline in tangible fixed assets of 4.0% compared to the decrease of long-term debt (decline: 11%).

Current ratio
The current ratio for general hospitals declined in 2019 and is lower than the healthcare sector average.
3.3 Operational key indicators

Operational challenges also visible at general hospitals

Competitive position and revenue growth
The provinces where relatively few general hospitals are located are those with the best competitive position. It is however conspicuous that they were not the highest revenue generators. In addition to the best competitive position, Friesland and Drenthe also scored the best 2019 rating.

The highest revenue growth was generated in the provinces of North Holland and Gelderland. Of the 32 general hospitals surveyed in this year’s Benchmark, no fewer than nine come from the province of South Holland. Based on general hospital data, there is no question of a causal link between revenue growth and competitive position.

Absence rate
The fact that the major challenges in the healthcare sector abound at an operational level is reflected in the situation at general hospitals. The absence rate grew once again, although it remained below the sector average; however, extra attention is needed going forward.

Employee turnover
Employee turnover rose again in 2019. Both employee turnover and the absence rate remained relatively flat in recent years – and in 2017 even decreased. The increase in both 2018 and 2019 can best be described as worrisome. From 2015-2017, general hospitals made their presence felt; nowadays that is no longer the case.

Staff deployment
Deployment of staff increased but is still under the healthcare sector average. The steady development of staff deployment can be attributed to the fact that both revenue and staffing costs increased by 8.0% and 8.8% respectively.

External staff deployment
The percentage of external staff deployment declined in 2019, in line with the healthcare sector average. Higher absence rates and employee turnover did not lead to the deployment of additional external staff.
4.1 Ratings

Rating rehab centers climbs to a-

- The rating of rehabilitation centers in 2019 increased to a-.
- There are major differences amongst the provinces, ranging from bbb- to aa+. This gives the medical rehabilitation centers their somewhat exclusive position.
- The rehabilitation centers in the northeast of the country are doing better than those in the southwest.
- Mid-sized institutions with revenues between €25 million and €60 million performed better in 2019 than smaller and larger medical rehabilitation centers.
- Medical rehabilitation centers score higher on key financial than key operational indicators.
- The number of institutions surveyed amounted to 13 (2018: 18).
- 2019 numbers for five medical rehabilitation centers had not yet been published by the end of July 2020.
4.2 Financial key indicators

Return

In 2019, return increased compared to the 2015 - 2018 period, the first time that return came in higher than the sector average. The components of a large number of medical rehabilitation centers had not yet been processed in the results at the time of writing, and this can impact the outcomes. It is conceivable that rehabilitation centers have encountered heavy weather and wish to make use of the deferral option. We anticipate that return will decline yet further when these medical rehabilitation centers file their 2019 financial statements, although it is absolutely not yet clear how the return will turn out. Those rehab centers that have already filed list several causes for their improvement in results, ranging from the release of provisions and higher overarching agreements. Other justifications include revenue streams with positive results and a better mix of production and staff deployment.

EBITDA

The EBITDA ratio was unchanged in 2019, despite the marked increase. This can be attributed largely to the impact of impairments at a number of rehabilitation centers in 2018. These write-offs pressured the 2018 return but had no impact on the EBITDA ratio then. We would like to point out that this can be the case. Many of these developments impact this subsector. The most significant of these are the persistent decline in in care product tariffs, the transition from intramural to non-hospital care and the changeover to modular budgeting planned in 2021. The impact this may have on financial performance and revenue growth is as yet uncertain. To sustain the positive trend in returns, it is crucial that medical rehabilitation centers focus on innovation.

DSCR

Can the financial health of the care sector withstand the impact of corona?

and work efficiently with the help of optimal deployment of capacity and resources.

DSCR and Net debt to EBITDA

DSCR can best be described as unorthodox in 2019; it declined, despite a significantly higher return. Intensive research suggests that DSCR in 2018 was too low, as two rehabilitation centers mistakenly failed to report repayments. Net debt to EBITDA reached a historic low in 2019, in line with the high return over that year. This key statistic has developed positively over the last five years, attributable to the fact that many rehabilitation centers were able to partially reduce their long-term debt.

Solvency

The solvency position of rehabilitation centers has been steadily on the rise since 2015, climbing above 30% in 2019 for the first time. The 2019 surge can primarily be attributed to the positive results of that year. In addition, a decrease in the balance sheet totals is apparent at a number of rehab centers. Furthermore, we see that centers that have yet to report their numbers have possibly impacted the solvency rise. This is attributable in the first place to the low solvency of some of the rehab centers that have yet to file. Solvency complies with the standard of 20% to 25% that the financial community typically sets. There would appear to be significant differences among rehabilitation centers themselves. Only one center reported solvency under 20% in 2019. Finally, it is worthy of note that solvency is lagging behind the healthcare sector as a whole. Healthy solvency is of the essence, judging by current and future developments in the rehab sector.

Loan to value

The Loan to value remains high at the medical rehab centers, where - just as last year - it was the highest of all subsectors. However, we have seen an annual decline in the Loan to value each year since 2016. Decreasing investment volume also contributes to this trend.

Current ratio

Current ratio in 2019 was still well above both the sector average and the accepted standard of 1. There is a visible decline compared to 2018, however. But due to the missing rehabilitation centers in the dataset, it would appear to be too early to draw conclusions.
4.3 Operational key indicators

Medical rehabilitation centers enjoy a strong competitive position, external staff deployment decreasing strongly

Competitive position and revenue growth
The Netherlands has a limited number of medical rehabilitation centers, although it is appropriate to talk of a solid competitive position. North Holland, South Holland and Overijssel each host three rehab centers - as they did last year - making them the provinces with the most rehabilitation institutions in the Netherlands. There are major differences in revenue growth, varying from a marginal decline in Overijssel to growth of almost 9.6% in North Brabant. Based on this data, there would appear to be no direct correlation between competitive position and revenue growth in any given province.

Absence rate
The absence rate was flat in 2019, the percentage dropping under the sector average of 6.2%. The underlying data indicates there was not even one rehabilitation center in 2019 with an absence rate lower than 4% and no rehabilitation centers whatsoever coming in with an absence rate above 7%. We would like to make it clear that two rehab centers that reported an absence rate over 10% in 2018 have not yet filed their 2019 annual accounts. We therefore expect that the absence rate percentage will further increase.

Employee turnover
Employee turnover at the medical rehabilitation centers declined slightly in 2019, coming in at just under the healthcare sector average. Here too it is noteworthy that institutions with the highest employee turnover in 2018 - more than 20% - have yet to file their 2019 financial statements at the time of writing. We anticipate that actual employee turnover is likely to accelerate towards 2018 levels.

Staff deployment
Staff deployment in rehabilitation centers grew substantially in 2019 to the highest level in the last five years. It is conspicuous that the surge in staff deployment can be largely attributed to an increase in a center’s own full-time equivalents. There was a sharp decrease in external staff deployment in 2019. The rise in staff deployment can partially be attributed to sustained absenteeism for health reasons.

External staff deployment
Deployment of external staff declined by 2.4 percentage points in 2019. This is the reason that the deployment of external staff ratio in 2019 is much lower than the healthcare sector average. This can potentially be attributed to relatively low employee turnover and an increase in the number of employees at the rehabilitation centers. Evidently, the rehabilitation sector is still regarded as an attractive employer. It is also possible that the smaller number of institutions surveyed influenced the 2019 number.

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**05 Independent treatment centers**

5.1 Ratings

“Independent treatment centers make widespread use of deferral opportunities

- Independent treatment centers have an average rating of a, better than in previous years.
- However, this rating is unreliable due to limited availability of filed annual accounts.
- Independent treatment centers continue to score highest on key operational indicators. A catch-up exercise was implemented in 2019 regarding key financial indicators.
- Independent treatment centers are making widespread use of the possibility to postpone payments.
- The number of independent treatment centers surveyed amounted to 11 (2018: 37).
5.2 Financial key indicators

Return declines at independent treatment centers

Return
After years of lower and even negative returns, it looks as if the independent treatment centers are once again structurally profitable. Return in 2019 is again positive and in line with that of 2017. For the third year in a row, the independent treatment centers are in the black. Most independent treatment centers, however, have reported a negative development in results. We must of course assess this trend within the context of the structure of the independent treatment center: it could be that true results in the operating entities are recognized and to a lesser degree in the authorized healthcare institutions.

EBITDA
As in previous years, there were no impairments of note in 2019 because independent treatment centers often own no property. They tend to rent space from hospitals or other third parties. The relatively low EBITDA ratio is reflected in the widespread renting of real estate. Marginal interest charges and depreciation costs compensate this to a degree. New real estate in line with renting of real estate. Marginal interest charges and depreciation costs compensate this to a degree. New real estate in line with

DSCR and Net debt to EBITDA
Due to the deviating financial structure, including low indebtedness, there are significant differences between the DSCR and Net debt to EBITDA with regard to the healthcare sector average. The DSCR, for example, is much higher than the sector average, and the Net debt to EBITDA much lower: the Current ratio of independent treatment centers is typically lower compared to the healthcare sector average. The reason for this is that the treatment centers (especially the authorized institutions) are financed by short-term liabilities (current account with group companies) rather than through long-term loans at credit institutions.

Solvency
Equity capital increased as a consequence of the – on balance – positive 2019 results. However, the reflected percentage is unreliable for previously-mentioned reasons. Generally speaking, the solvency of an independent treatment center is substantially lower than in the other subsectors. They also score below the conventional solvency standard set by banks. This is caused by several factors:

- Given the way they are structured, independent treatment centers might generate capital elsewhere within the institution.
- Dividend payouts lead to lower equity.
- Treatment centers have been around for a shorter period than other healthcare institutions and have accumulated fewer buffers.
- They achieve lower results.

Loan to value
The graph indicating the Loan to value presents a misleading picture. Independent treatment centers in the 2019 dataset have a relatively low Loan to value compared to the treatment centers not included in the 2019 dataset. For example, the long-term debt of independent treatment centers in the 2019 dataset represents merely 3.5% of the balance sheet total. For comparison purposes, the percentage for the comprehensive 2018 dataset was double that of the 2019 dataset. Loan to value over 2019 is therefore likely to double and come in at a level comparable to 2018.

Current ratio
The increase in the Current ratio can be attributed to the limited dataset. We expect that the ratio will come in a fraction above the level of the conventional commercial standard of 1. The Current ratio of independent treatment centers is typically lower compared to the healthcare sector average. The reason for this is that the treatment centers (especially the authorized institutions) are financed by short-term liabilities (current account with group companies) rather than through long-term loans at credit institutions.

Distorted picture due to incomplete dataset

Can the financial health of the care sector withstand the impact of corona?

- Average score Dutch healthcare
5.3 Operational key indicators

Extremely low absence rate at independent treatment centers

Competitive position and revenue growth
The limited number of filings suggest that the competitive position of independent treatment centers in the provinces is presented as a little too favorable. This can be attributed to the fact that there are no annual accounts available of competitive institutions. As in previous years, revenue growth in the Randstad was higher than in other provinces. The range of revenue development was also interesting: from a contraction of 2% to a gain of 13%.

Absence rate
The absence rate at independent treatment centers is far below the sector average. No other subsector reports an absence rate of less than 3%. Due to the fact that the independent treatment centers have not been around all that long, it is conceivable that they are staffed by relatively young employees, potentially explaining the lower absence rate. The more modern interpretation of their human resources agenda can also play a role in this development.

Employee turnover
The employee turnover in the infographic (on the right) may not be truly reliable, with a view to the exceptionally strong gain in 2019. We do, however, anticipate employee turnover to rise as those institutions that have filed financial statements indicate that the turnover rate is on the increase.

Staff deployment
Although the 2019 number may not be entirely representative, staff deployment increased last year. However, staff deployment is still considerably under the healthcare sector average, partially caused by:
- The revenue model at independent treatment centers is based on operating lean and mean. They do not have a long history and therefore no staff heritage.
- Employees are sometimes recruited from affiliated subsidiaries and are hired by the authorized institution as part of a service agreement. This way, no staffing costs are filed for that particular authorized institution.

Deployment external staff ratio
The fact is that the deployment external staff ratio at most independent treatment centers does not apply to the ‘actual’ hiring of personnel, but to ‘borrowing’ staff from affiliated subsidiaries. Therefore, the deployment external staff ratio is significantly higher than the sector average. Much like the other infographics, this one also displays a potentially misleading picture as a consequence of the incomplete dataset. For this reason, it is provisionally difficult to draw any substantive conclusions from the ‘actual’ deployment external staff ratio.
6.1 Ratings

“Mental healthcare rating climbs to bb+b”

- The mental healthcare rating rises from bb to bb+b.
- Smaller institutions (between €10 million and €25 million revenue) outperform other mental healthcare institutions.
- The average rating per province shows a fluctuating picture.
- The mental healthcare sector scores higher on financial key indicators than on operational key indicators.
- The majority of the institutions perform below average.
- The most frequent rating is bb+.
- The number of institutions surveyed amounted to 51 (2018: 102). Various institutions have requested payment deferral. This can impact the representation.
Mental healthcare sector return once again impacted by incidental revenues

**Return**

After a lower return in 2018, primarily attributable to a limited number of institutions that incurred serious losses, the return in 2019 significantly exceeds the sector average. The mental healthcare sector has experienced fluctuating results in recent years. A possible explanation is that the results are impacted by incidental revenues.

Research by Gupta Strategists in 2019 shows that most of the results in the mental healthcare sector are realized by one-off book profits from the sale of real estate. The 2019 numbers appear to reflect this picture. The positive results and return for the five institutions that realized the highest absolute results can be explained by incidental profits from the sale of real estate or fulfilled revenues from previous years.

In addition, we see that over the past five years the capital expense ratio decreased from 9.8% to 7.3%.

**EBITDA**

Research by Gupta indicates that 60% of the mental healthcare institutions realized positive results from normal business operations. The remaining institutions reported negative results. Some institutions compensate negative results with incidental revenues, others are unable to do so. We can see that some institutions that generated significantly negative 2018 results were able to turn the tide and realize positive results in 2019. Positive results from normal business operations are important to create the necessary financial buffers and to be prepared for the future.

**DSCR and Net debt to EBITDA**

The upward trend in return in 2019 is also reflected in the other ratios. The EBITDA ratio and DSCR improve in 2019 and are equal to or rise above the sector average for the first time. An improvement of these ratios enables the space for new financing applications. However, there is an associated risk in the event that the improvements are caused by incidental results rather than normal business operations.

**Solvency**

Solvency improves in line with positive results. Some institutions applied system change provisions for heavy maintenance. The provisions add to the equity capital of the institution. Solvency in 2019 is above 30% and thereby exceeds the requirements set by banks (20%-25%). Still, the mental healthcare sector lags behind and is below the sector average. In previous years, six institutions had negative equity capital. These institutions are mostly excluded from the 2019 data and could impact these findings.

**Loan to value**

The Loan to value dropped in 2019 to 65.1%. Most institutions with a high Loan to value in the previous year have requested payment deferral for 2019 and are therefore excluded from these findings. We expect that the Loan to value is higher in reality than is currently presented.

**Current ratio**

The Current ratio decreased slightly in 2019 and is equivalent to the sector average.
6.3 Operational key indicators

Despite the decrease, staff deployment remains above sector average

Competitive position and revenue growth
Mental healthcare institutions in the provinces Brabant, South Holland and North Holland in particular experience heavy competition. This is caused simply by the number of institutions in the region. Revenue growth in the northern provinces sometimes exceeds 10% and is higher than the revenue growth in southern provinces.

Absence rate
In accordance with the sector trend, the absence rate in the mental healthcare sector increased in 2019. However, it remains below the sector average.

Employee turnover
The increasing trend in employee turnover of the previous year appears to have come to a standstill in 2019. Employee turnover experiences a stark drop to around the sector average in 2019. Last year, employee turnover was well above average. Possible explanations are the collective labor agreements that structurally increase wages and the initiatives by institutions to retain personnel.

Staff deployment
Staff deployment decreased. Nonetheless, staff deployment remains well above the sector average. The decrease can be explained by the fact that the increase in revenue growth exceeded the increase in labor costs. As aforementioned, the revenue growth is caused mostly by incidental revenues. The increase in labor costs is associated with the wage increase in the collective labor agreement, an increase in ambulatory care and the rising number of vacancies that are hard to fill. Since the ratio decrease is mainly caused by the increase in incidental revenues, there is a risk that the decrease we perceive will not persist next year. Decreasing the ratio therefore remains a challenge for next year.

Deployment external staff ratio
We observe a slight increase in the deployment external staff ratio in 2019 and it thereby corresponds with decreasing employee turnover. This increase could be a result of the rise in absence rate and labor costs per external staff member and not necessarily because of an absolute increase in deployment of external staff.
7.1 Ratings

Performance of large youth services institutions is alarming

- The rating of youth services institutions appears to increase for the first time since 2016.
- Operational performance lags behind the financial performance. This can be attributed largely to a high employee turnover and relatively high absence rate.
- There is high volatility in ratings among the institutions and regions.
- Large institutions lag far behind the small and medium-sized institutions. The difference is substantial.
- The most frequent rating is bb+ and is below average.
- The number of institutions surveyed amounted to 24 (2018: 62).
- We expect the rating to deteriorate as more institutions are included in the report.
7.2 Financial key indicators

Youth services return at critical threshold of 1%

Return
Fewer institutions are included in our 2019 report than in 2018, because many institutions have not yet filed their annual accounts. The return in youth services institutions has been low since decentralization in 2015. With the exception of 2016 (when the results of many institutions benefited from a one-time TAJ contribution), return has structurally fallen below 1%. In 2019, return once again climbs towards the 1% threshold. The differences among institutions are huge. We observe a substantial number of negative results in the larger institutions. This makes the large institutions potentially more vulnerable to the impacts of the corona crisis than the smaller institutions.

EBITDA
The infographic indicates that the EBITDA ratio in youth services is structurally low. The youth services sector therefore lags behind the sector average both in terms of return and EBITDA ratio. A possible explanation is the high pressure on rates that the youth services sector needs to address. Increasing returns over the years ahead therefore remains an area of attention, partly because youth services institutions have relatively high property rental expenses.

DSCR and Net debt to EBITDA
Throughout the years, the DSCR in youth services institutions presents a fluctuating picture and is unusually high in 2019. This is primarily caused by limited interest and amortization obligations. In the past, a lot of real estate was acquired through equity capital or guaranteed (re)mortgages. Net debt to EBITDA has been negative since 2015. This is because the institutions have a negative net debt on balance. In other words: they ‘own’ more liquid assets than external funding. Youth services institutions are therefore generally well able to fulfill their interest and amortization obligations.

Solvency
The solvency of the youth services institutions improved substantially in 2019. The relatively small sample size of institutions could impact these findings. The positive developments in solvency in 2019 are also stimulated by the number of institutions that have applied system changes for the processing of heavy maintenance expenses. This has had a positive effect on the solvency of these institutions.

Loan to value
Loan to value further decreased in 2019. The limited sample size of institutions can however impact these findings. The low Loan to value has a positive impact on the rating. We observe that the positive rating of this subsector is primarily caused by the strong financial position (developed in the period up to decentralization) and not necessarily by a strong financial performance.

Current ratio
The 2019 liquidity position of the youth services institutions is stable, even increasing slightly, but it remains an area of attention. A possible explanation is the limited number of advances granted by the municipalities, while the banks also restricted funding. In addition, pressure on rates impacts the liquidity position of youth services institutions.

Youth services solvency sufficient, pressure on liquidity remains
7.3 Operational key indicators

Employee turnover remains high in 2019

Competitive position and revenue growth

The limited sample size of institutions makes it hard to assess the competitive position and revenue growth of youth services institutions. Most regions reflect a positive competitive position. The provinces of Utrecht and North Holland appear to underperform. We see no correlation between the competitive position and revenue growth in the youth services sector.

Absence rate

The absence rate in youth services institutions has been high for years. After a peak in 2017, it experienced an upward trend in 2019 compared to 2018. The absence rate in 2019 is in line with the sector average. Similar to last year, we advise youth services institutions once again to reduce the workload in order to control the absence rate and employee turnover.

Employee turnover

Employee turnover in the youth services sector has been high since 2015 and remains high. In 2019, employee turnover increased substantially and rose to the highest level in five years. We are seeing employee turnover exceeding 10% in all surveyed institutions in 2019. This is considered too high and is potentially caused by excessive workload. Low rates do not allow the necessary financial room for maneuver to hire more staff. We do not expect this trend to change in the short term. The only thing institutions can do to help themselves is to keep a close eye on talent management to retain the best possible personnel.

Staff deployment

Staff deployment decreases slightly in 2019 but remains relatively stable compared to the 2016-2018 period. Staff deployment in the youth services sector is relatively high compared to other subsectors. In fact, it exceeds 70%, the level required by financial institutions, and can partially be attributed to high levels of ambulatory care.

Deployment external staff ratio

Compared to the sector average, youth services institutions have a relatively high deployment external staff ratio. This margin is mainly due to high employee turnover and the relatively high absence rate. However, the decrease of the deployment external staff ratio in 2019 defies expectations, given the increase in absence rate and employee turnover. This key indicator is possibly impacted by the small sample size of surveyed institutions.
8.1 Ratings

Rating of regional institutions for protected living equals that of 2018

- The rating of the regional institutions for protected living remains a, equal to that in 2018.
- The financial position of regional institutions for protected living remains very solid.
- No institutions have a rating lower than bbb-.
- There are slightly more institutions with an above-average performance than those performing below average.
- Consistent with previous years, the large institutions outperform the smaller ones.
- The number of institutions surveyed amounted to 11 (2018: 15).
Regional institutions for protected living in the red for the first time

Return
The downward trend in return for the regional institutions for protected living in 2018 continued into 2019, resulting in a negative return. The percentage of institutions with a negative result is virtually equal to 2018. In general, it is the same group of institutions. The return of the subsector therefore falls below the critical threshold of 1%. An important side note is that not all institutions have filed their 2019 annual accounts yet, potentially distorting the view somewhat. Over the past five years, the capital expense ratio dropped from 9.6% to 9.4%. Institutions were unable to add this 0.2% decrease to their return. This is partly caused by the pressure on rates since the decentralization of 2015.

EBITDA
The decrease in EBITDA ratio in 2019 is in line with the decrease in return and is similar to previous years - well below the sector average. A possible explanation is the high pressure on rates that the regional institutions for protected living have faced since decentralization. Increasing the return therefore remains an area of attention. The fact that these institutions have relatively high property rental expenses contributes to the low EBITDA.

DSCR and Net debt to EBITDA
The DSCR of the regional institutions for protected living remains high, even slightly increasing in 2019. This is primarily due to the fact that many institutions have no or limited funding because they rent property or acquire it with equity capital.

Solvency
Therefore, in recent years the regional institutions for protected living have been well able to fulfill their interest and amortization obligations. This also results in a negative Net debt to EBITDA ratio, similar to previous years. Almost all regional institutions for protected living have a negative net debt on balance, meaning that liquidities exceed debts.

Loan to value
The Loan to value continues to drop (in 2019 to 19.3%) and is substantially below the sector average. Due to the strong equity position, the regional institutions for protected living are largely able to finance tangible fixed assets with equity capital. Property rental expenses are also relatively high in this subsector. In fact, some institutions have no long-term debts whatsoever.

Current ratio
The Current ratio drops to 3.15% in 2019 but remains above the sector average. The average account balance of the institutions equals €30.2 million in 2019 (€25.2 million). Similar to previous years, no institution has outstanding short-term current account debts with a bank. Given the increase of the average account balance, it remains important to develop a long-term vision in order, as much as possible, to mitigate risk.
8.3 Operational key indicators

Employee turnover continues to increase, slight decrease in absence rate

Competitive position and revenue growth
All regional institutions for protected living have a strong competitive position due to the limited number of institutions in the country. We do observe high volatility in revenue growth with values between minus 3.4% and +16.7%. Similar to last year, institutions in the western provinces and North Brabant clearly outperform the other provinces with regard to revenue growth.

Absence rate
The absence rate in regional institutions for protected living decreased to 7.0% in 2019. This decrease further closes the gap with the sector as a whole. An important side note is that three institutions with the highest absence rate in 2018 have not yet filed their 2019 financial statements. It is possible that once these accounts have been filed, a different picture appears. Continued attention to HR policy for decreasing the absence rate is crucial.

Employee turnover
In 2019, employee turnover rises substantially to 17.5% and leads the rankings together with youth services. A possible explanation is the fact that the increase in ambulatory care sets different requirements and hires a different kind of employee. In addition, one institution shows a substantial increase in employee turnover which, given the limited number of total institutions, has a significant impact on the average.

Staff deployment
Staff deployment once again increased substantially in 2019, presenting a different picture than in the healthcare sector as a whole, where we observe a slight decrease in staff deployment. An increase in ambulatory care and decrease in protected living facilities, a high absence rate and the high employee turnover contribute to high staff deployment.

Deployment external staff ratio
The deployment external staff ratio increased in 2019. The increased deployment of external staff is due to the high absence rate and employee turnover in the subsector. The regional institutions for protected living compensate for the absence rate and employee turnover by deploying external staff.
Disabled care rating remains equal but score improves

- The rating of the disabled care institutions remains equal but the overall score improves.
- There are no explicable differences between provinces.
- Medium-sized institutions outperform small and large institutions.
- The disabled care sector scores better on financial key indicators than on operational key indicators.
- There are four institutions with an aa rating in 2019 (2018: two).
- The majority of the institutions score below average.
- The number of institutions surveyed amounted to 75 (2018: 105).
Return disabled care further decreases in 2019

Return
The disabled care subsector realized a stable return of over 2% in the years leading up to 2017. 2016 was an exception to the rule, due to provisions for irregular working hour compensation during vacation. As of 2018, the returns have almost been one percentage point lower. Reasons for this decrease are potentially the combination of pressure on rates and increasing labor expenses caused by increasing absence rate and employee turnover. In any case, it cannot be attributed to the capital expense ratio. This has decreased from 11.4% to 9.1% over the past five years. The institutions have not been able to convert these benefits to higher returns. Potential interest increases and negotiable NWC as of 2022 therefore pose a significant risk.

EBITDA
The decrease in return in 2019 is also reflected in the decrease of the EBITDA ratio. In 2018 and 2019, the ratio dropped to just below the Dutch healthcare sector average. We suspect that pressure on rates and increasing labor costs are reasons for the decrease.

DSCR and Net debt to EBITDA
Similar to previous years, the disabled care sector scores above the sector average with the DSCR and Net debt to EBITDA. However, lower operational results can be attributed to a drop of the DSCR and an increase in Net debt to EBITDA.

DSCR

Net debt to EBITDA

Solvent is sufficient, liquidity position drops substantially

Solvency
Despite a slight decrease in 2019, the solvency of the disabled care sector presents a healthy picture. The decrease defies expectations, given the positive return and the fact that some institutions have added the provision of heavy maintenance to their equity capital. The cause is the composition of the dataset. Some institutions with high equity capital have not yet filed their annual accounts. As a side note, the liquidity position does not correspond with the solvency, because much of the real estate is purchased with equity capital. This way of funding could be an area of attention for institutions as the jury is still out on whether it is future proof.

Loan to value
Just under half of the tangible fixed assets are financed by long-term borrowed capital. This is considered low compared to other subsectors. As aforementioned, a relatively large portion of tangible fixed assets is financed by equity capital. This is risky if the pressure on returns is sustained, since the financial buffers in the disabled care sector are depleted quicker. In fact, depleted financial buffers have recently already caused continuity problems for some institutions.

Current ratio
The Current ratio decreased substantially in 2019. Part of this decrease is caused by the composition of the dataset. Some institutions with a high Current ratio have not yet filed their annual accounts. Nonetheless, the liquidity position is lower than the sector average and therefore remains an area of attention for institutions in the disabled care sector. The low liquidity position is - as aforementioned - caused by investments that were financed with equity capital. Moreover, it proves to be a challenge for institutions active in the municipal domain to receive municipal advances, and pressure on rates influences the results. This could impact the liquidity position of individual institutions.
9.3 Operational key indicators

High deployment of external staff due to high absence rate and employee turnover

Competitive position and revenue growth

The northern provinces in particular enjoy a beneficial competitive position (due to relatively low competition). This situation is also reflected in the province of Zeeland. We see no correlation between the competitive position and revenue growth in the disabled care sector. However, we do observe that revenue growth in Limburg lags behind other provinces.

Absence rate

The absence rate in the disabled care sector is the same in 2019 as it was in 2018, remaining alarmingly high. A possible reason for the high absence rate is the heavy workload experienced by employees. In addition, employees increasingly experience aggressive behavior from clients, making them feel less secure. The stress caused by this sentiment can be a reason for the high absence rate. The absence rate in the disabled care sector is above the sector average.

Employee turnover

Employee turnover remains equal in 2019 to that of 2018, and is still far above previous levels. In the years leading up to 2017 there was a great sense of employee loyalty, despite increased workload and absence rate. 2018 marks a pivotal point in this trend. This is also reflected in the employee turnover in 2019. We advise institutions to reduce the workload by addressing the absence rate and employee safety and controlling employee turnover.

Staff deployment

Staff deployment shows a slightly increasing trend in recent years, but is still considered relatively stable. Staff deployment, similar to previous years, is high compared to the sector average and is once again negatively impacted by the high absence rate and employee turnover in 2019. Staff deployment in 2019 exceeds the 70% usually applied by the financial community. From this we deduct that the benefits from lower capital expenses have been directed towards fulfilling higher labor costs.

Deployment external staff ratio

Similar to the absence rate, the deployment external staff ratio is higher than the sector average. The deployment external staff ratio increased compared to 2018, reaching an all-time high in 2019. The high absence rate is the main cause of this.
10.1 Ratings

Ratings remain the same, score improves

- The rating of the elderly care sector remains the same at bbb+, but overall score improves.
- Marginal differences among provinces are observed with scores varying between bbb and a-.
- Smaller institutions outperform medium and large institutions.
- Operationally, the elderly care sector scores on average and in line with 2018. Financially, the subsector’s performance improves.
- The number of institutions surveyed amounted to 201 (2018: 330). We observe that a portion of the (particularly smaller) institutions has made use of the deferral opportunity. This can impact the picture reflected in the ratios.
Return elderly care decreases despite funds for quality assurance

The increase in operating income is not reflected in the EBITDA ratio either. The EBITDA ratio remains slightly below sector average. Given the increase in labor costs, it appears that the additional financial resources have been allocated to more personnel.

EBITDA

The DSCR remains virtually the same in 2019 compared to the previous year, above the sector average. Net debt to EBITDA continues its downward trend to the lowest point in years. This means, based on these two ratios, that institutions in the elderly care sector enjoy a strong position should they request financing.

DSCR and Net debt to EBITDA

Return in the elderly care sector decreased in 2019 despite high operating revenues and low capital expenses. The capital expense ratio decreased steadily from 10.9% to 8.5% over the past five years. The increase in revenues is caused by quality assurance funds. The Dutch government granted additional financial resources (the quality assurance budget) to improve the quality of elderly care. In 2019, a total of €600 million was allocated to the elderly care sector. Approximately 85% of this budget was allocated to labor costs and 15% to outstanding investments. For the 2020 financial year, the government engaged in financial commitments to the amount of €1.1 billion.

Solvency

Solvency continues its increasing trend in 2019, well above the sector average. The increase is due to the positive results and the system change provisions for heavy maintenance implemented by some institutions. Therefore, the provision has been added to equity capital. We observe that various institutions are missing in the dataset compared to last year. The picture presented may well change when the remaining institutions file their financial statements. We expect a slightly lower solvency in 2019, since it is typically the less financially healthy institutions that make use of the deferral option.

Loan to value

The Loan to value in the elderly care sector further decreases in 2019 and follows the sector-wide trend. Average investments increase and impairments decrease. This has a beneficial impact on the level of tangible fixed assets, causing the Loan to value to decrease. As a side note we add that not all institutions have been added to the dataset. We expect a slightly higher Loan to value as a result.

Current ratio

The Current ratio continues to increase and is well above the sector average. Both the short-term debts and the current assets increased in 2019. Similar to last year, a substantial rise in the available financial resources is observed. We expect that this key indicator will decrease slightly once the financial statements of the institutions that have made use of the deferral option are included in the 2019 dataset.
10.3 Operational key indicators

Absence rate continues to rise, slight decrease in employee turnover and deployment external staff ratio

Competitive position and revenue growth

Due to the large number of institutions in the elderly care sector, the competitive position of these institutions remains low. It is worth noting that the competitive position in the provinces with low population density is better than in the provinces with high population density. Despite the relatively low competitive position, the subsector reflects a higher revenue growth. Revenue growth is between 6.1% and 14.3%. This increase can be explained by the quality assurance funds received.

Employee turnover

Employee turnover decreased in 2019, in line with the sector as a whole. Despite this decrease, employee turnover remains above the sector average. The concentrated efforts to retain personnel (including acquiring additional financial resources) appears to have had an impact.

Nonetheless, retaining personnel and reducing employee turnover remains a challenge for the future, partly due to the tight labor market.

Staff deployment

Staff deployment increased in 2019. This means that even more staff have been deployed than one would expect based on the quality assurance funds available. Yet, it could also be due to other factors, including an increase in absence rate. Elderly care is considered a labor-intensive subsector, requiring relatively many employees per client. This also leads to a higher staff deployment compared to the sector average.

Deployment external staff ratio

Despite the increasing absence rate, the deployment external staff ratio decreases this year. This could be due to the fact that institutions cover the absence rate with their own personnel. In addition, the decrease in employee turnover appears to have a positive impact on the deployment of external staff. However, the decrease in the deployment of external staff remains curious. It was not expected that the institutions would have been able to fully increase staff deployment from the quality assurance funds internally. In fact, this was the case, as reflected by the deployment external staff ratio.

Absence rate continues to rise. This trend is visible throughout the healthcare sector, but is most prominent in the labor-intensive branches. The absence rate in the elderly care sector is therefore higher than the sector average. Despite the fact that the increase in absence rate is marginally smaller than in the previous year, the elderly care sector remains in the top 3 for highest subsector absence rates. The high absence rate leads to a heavier workload. Institutions will have to take measures to decrease this key indicator. It appears that the quality assurance funds have had an insufficient impact on reducing the workload.

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EY Montesquieu methodology rating

EY Montesquieu has its own rating system, based on the methodology of Fitch. We exclusively use data that is publicly available, which is slightly more limited than the data Fitch has at its disposal. Consider the level of detail for future planning and management quality.

Over ten years of experience in rating the feasibility of business cases in the healthcare sector, used as a foundation for successfully financing projects, contributes to the structure of this methodology. The rating used in this benchmark offers an insight into the realized financial and operational quality. Experience tells us that the banks consider our rating exceptionally valuable for financing projects.

Introduction

Structure

The rating is structured in eight financial and four operational key indicators. Every key indicator is assigned 0, 2, 5 or 10 points. A maximum of 80 and 40 points can be awarded for financial and operational performance respectively.

The maximum number of points that can be awarded is therefore 120. The total score determines the rating. Every key indicator has the same weight. The table below shows the distribution of points in the rating methodology.

<table>
<thead>
<tr>
<th>Rating</th>
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<tbody>
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| < 40  |
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| < 55  |
| < 60  |
| < 65  |
| < 70  |
| < 75  |
| ≥ 75  |
Can the financial health of the care sector withstand the impact of corona?

**Financial key indicators**

<table>
<thead>
<tr>
<th>Key Indicator</th>
<th>Method of calculation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Return</td>
<td>Net results / revenues</td>
</tr>
<tr>
<td>2. EBITDA-Margin</td>
<td>EBITDA / revenues</td>
</tr>
<tr>
<td>3. DSCR</td>
<td>EBITDA / (interest charges + repayables)</td>
</tr>
<tr>
<td>4. Net debt / EBITDA</td>
<td>Net debt / EBITDA</td>
</tr>
<tr>
<td>5. Solvency</td>
<td>Equity capital / total assets</td>
</tr>
<tr>
<td>6. Loan to value</td>
<td>Long-term debt / tangible fixed assets</td>
</tr>
<tr>
<td>7. Current ratio</td>
<td>Current assets / short-term debt</td>
</tr>
<tr>
<td>9. Capital cost ratio</td>
<td>Write-offs + impairments + interest &amp; other financial charges + rent and leasing / revenues</td>
</tr>
</tbody>
</table>

**Operational key indicators**

<table>
<thead>
<tr>
<th>Key Indicator</th>
<th>Method of calculation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Competitive position</td>
<td>Revenues of institution vs total revenues in subsector and province where institution operates</td>
</tr>
<tr>
<td>2. Employee turnover</td>
<td>Outflow FTE / total FTE</td>
</tr>
<tr>
<td>3. Absence rate</td>
<td>As reported in DigiMV</td>
</tr>
<tr>
<td>4. Staff deployment</td>
<td>Personnel costs / revenues</td>
</tr>
<tr>
<td>5. External employee ratio</td>
<td>External staff costs / total personnel costs</td>
</tr>
</tbody>
</table>

**Abbreviations**

**Terms**

- DSCR = Debt service coverage ratio
- EBITDA = Earnings before interest, taxes, depreciation and amortization
- Operating results +/+ depreciation +/+ impairment
- Net debt = Long-term debt +/+ amounts owed to credit institutions +/+ repayment obligations -/- liquid assets

**Subsectors**

- UMC = Academic hospital
- TKZ = Top clinical hospital
- AZKH = General hospital
- REV = Medical rehabilitation center
- ZBC = Independent treatment center
- GGZ = Mental healthcare
- JZ = Youth services
- RIBW = Regional institutions for protected living
- GHZ = Disabled care
- VVT = Nursing, care and home care

**Customized benchmark and rating report**

In addition to this 2020 Dutch Healthcare Benchmark regarding the healthcare sector in the Netherlands, we also have developed financial benchmarks at institutional level. Please feel free to apply to us for a customized benchmark report.

**Three kinds of report**

We can offer you three types of report:

- **A basic report** (free of charge). When compiling this report, we make use of DigiMed publicly-available (historical) data. This is the same dataset as used for this benchmark. We compare your institution to both the subsector and a peer group (of maximum eight institutions).

- **A corona impact analysis report** (indicative €2,500). When compiling this report, we review certain scenarios based on corona impact assumptions - and make projections with regard to the outcome of a select group of financial key indicators in 2020.

- **A rating readiness report** (€12,500). When compiling this report, we not only make use of publicly-available data but also of your own forward-looking statements such as multi-year projections and plans. An EY Montesquieu team member visits your institution and conducts a number of interviews. This leads to a customized report with a detailed rating as the prelude to a Fitch rating.

Should you be interested in a benchmark of this nature, please advise us via health.care@nl.ey.com and we would be happy to discuss this report with you in a personal conversation.

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About the Health Care sector group

The Health Care sector group professionals are part of a worldwide network that brings together care professionals from Assurance, Tax, Transactions and Advisory to anticipate trends, their consequences and to develop a vision on how best to respond to critical issues. This multidisciplinary approach and proven knowledge of the healthcare sector, both at home and abroad, enables us to help you to achieve your strategic objectives and to stay on track.

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