



BOARD DISCUSSION

An aging population and increasingly onerous regulatory requirements have promoted a flurry of business sales in the aged care space.

M&A boom in aged care

There's an unprecedented level of M&A activity in the aged care sector, driven by healthy market conditions and growing demand for these services.

Given the large number of deals in this area, it is essential potential investors understand the often complex risks involved in operating an aged care facility and how to mitigate them.

But first, let's take a look at some of the major deals that have happened in this space in this year alone.

There have been transactions right around the country, involving a variety of different investors. For instance, in Western Australia, government body LandCorp sold Kaleeya Hospital to aged care provider Southern Cross Care.



Adelaide-based private business Wellness & Lifestyles Australia, a provider of allied services to the aged care sector, has also been seeking an investor to back its ever-growing activities.

In Victoria, aged care provider Estia Health has acquired four aged care facilities. Dimple, a Victorian podiatry business is also considering how working with an investor may benefit its business.

In New Zealand, listed aged care provider the Arvida Group has acquired three retirement villages.

A retirement village operator RetireAustralia was acquired in December 2014 by Infratil and New Zealand Superannuation Fund.

There has also been activity among Australian listed businesses, with Ramsay Health flagging to the market that it may consider further acquisitions of aged care facilities down the track.

We believe one of the reasons why there has been so much activity in this space is because smaller operators are taking advantage of current market conditions to realise their investment by selling to larger operators.

Larger operators are often more easily able to develop economies of scale by aggregating facilities and realise synergies as a result of building a portfolio of similar assets.

In addition, residents and their families are increasingly expecting higher quality services, requiring ongoing investment in facilities. It can be challenging to achieve this as a smaller operator, which is likely to be one of the reasons why consolidation is happening in the sector.

So how can investors seek to ensure they buy attractive assets and structure a successful deal? An important step is to do thorough due diligence to get an informed view of the asset that is for sale.

Indeed, insurance is a critical issue in this sector and a key part of due diligence is ensuring the business has appropriate cover in place. This will generally include public liability and business continuity insurance amongst other insurance covers. For instance, how will the business be covered should a serious accident take place such as a fire?

Does cover include that, in the event of an incident, residents can be relocated while the facility is repaired and receive the appropriate level of medical care they require?

Aged care is an exciting industry in which to be operating. But investors must fully understand the opportunity and the risks involved before gaining a position in the market.

ABOUT MARSH

Marsh is a global leader in insurance broking and risk management. Marsh helps clients succeed by defining, designing, and delivering innovative industry-specific solutions that help them effectively manage risk. Marsh's approximately 27,000 colleagues work together to serve clients in more than 130 countries. Marsh is a wholly owned subsidiary of Marsh & McLennan Companies (NYSE: MMC), a global professional services firm offering clients advice and solutions in the areas of risk, strategy, and people. With 57,000 colleagues worldwide and annual revenue exceeding US\$13 billion, Marsh & McLennan Companies is also the parent company of Guy Carpenter, a leader in providing risk and reinsurance intermediary services; Mercer, a leader in talent, health, retirement, and investment consulting; and Oliver Wyman, a leader in management consulting. Follow Marsh on Twitter @MarshGlobal, or on LinkedIn, Facebook, and YouTube.



Aged care facilities generally have numerous legacy issues and it's important to understand what these are before buying an asset by performing appropriate risk and insurance due diligence. One of these can be workers compensation obligations.

Disclaimer: Marsh Pty Ltd (AFSL 238 983, ABN 86 004 651 512) arranges insurance and is not an insurer. This document and any recommendations, analysis or advice provided by Marsh (collectively, the 'Marsh Analysis') are not intended to be taken as advice regarding any individual situation and should not be relied upon as such. This document contains proprietary, confidential information of Marsh and may not be shared with any third party without Marsh's prior written consent. Any statements concerning actuarial, tax, accounting or legal matters are based solely on our experience as insurance brokers and risk consultants and are not to be relied upon as actuarial, accounting, tax, or legal advice, for which you should consult your own professional advisors. The information contained herein is based on sources we believe reliable, but we make no representation or warranty as to its accuracy. Except as may be set forth in an agreement between you and Marsh, Marsh shall have no obligation to update the Marsh Analysis and shall have no liability to you or any other party with regard to the Marsh Analysis or to any services provided by a third party to you or Marsh. Marsh makes no representation or warranty concerning the application of policy wordings or the financial condition or solvency of insurers or re-insurers. Marsh makes no assurances regarding the availability, cost or terms of insurance coverage.

Copyright © 2015 Marsh Pty Ltd All rights reserved. CATS 15/0035 MAD_A_15-1740