M&A boom in aged care

BOARD DISCUSSION

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

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.

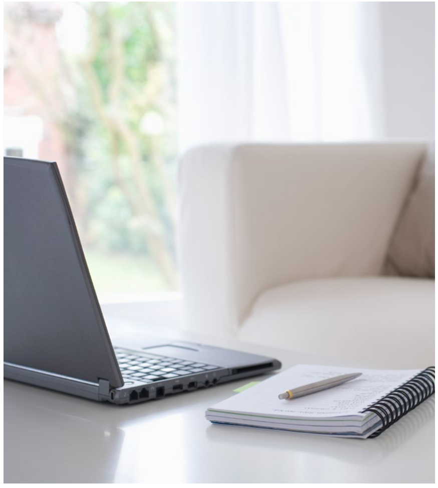
In addition, residents and their families are increasingly expecting higher quality services, requiring ongoing investment in facilities. It can be challenging to achieve this as a smaller operator, which is likely to be one of the reasons why consolidation is happening in the sector.

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.



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.

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