n the surface, the UK health and social care sector continues to present attractive opportunities for private investment. Demographic factors, such as an aging population, people living longer with enduring illnesses and the potential for disease to spread globally quickly, ensure there remains ample opportunity for innovation and investment.

As such, looking to the year ahead, Trowers believes we can expect a year of continued investment through consolidation and M&A activity. The big players in their respective markets will continue to seek growth opportunities. In service led operations (where businesses are suffering from being unable to train or recruit sufficient staff), it can be easier to buy in capacity through acquisitions rather than organically grow businesses.

So, as the market remains buoyant what should those with prize assets be considering?

In order to secure what they believe will be best value, sellers continue to favour auction processes whereby they invite a series of parties to submit bids in a competitive process.

On any sale, price is fundamental to the seller, they will want to achieve the best value they can for their asset, but this is not the only factor to consider and buyers need to bear this in mind when submitting their bids:

A seller does not want to accept a bid only to find it is undeliverable. Therefore buyers should ensure at the outset that they have the necessary funding in place to make the acquisition (and can provide supporting evidence of this if required), that they have checked any regulatory or other consents required to complete the transaction and no third party approvals are needed and that the management team running the process has corporate board approval to submit the bid.

The negotiation of legal documentation is also an important component. Sellers will ask for sale and purchase agreements to be marked up and submitted with the bids. Clearly sellers will favour mark ups that do not seek to place (what they see as) unduly onerous obligations on them through multiple indemnities and high limits of warranty cover. Buyers should therefore consider other avenues of comfort (other than recourse to the seller), such as warranty and indemnity insurance. Warranty and indemnity insurance is an effective tool to transfer economic risk in the transaction from the person giving the warranties to the insurance firm underwriting the warranties. However both parties should understand the limits of warranty and indemnity cover such as the excess and whether certain warranties have been carved out of the policy by the insurer for being too risky to cover.

Buyers need to think about proposals for incumbent management teams. Whilst not itself being a determining factor, bids that have a plan going forward involving the current management team are more appealing to sellers, especially private equity sellers who will often have some degree of loyalty to a team that has led them to sale and will want to see them continue in their roles.

Another concern for some is reputational risk. Where reputational risk can be a true inhibitor is in a competitive market place (such as an auction), especially at the mid- to lower-end of the market where management teams and/or manager owners are often healthcare careerists and who will likely value and emphasise quality of care ahead of other considerations. As a buyer, being able to show a successful and clean track record in regulatory, reputational and quality of service provision can often be a key differentiator.

So, our projection for 2016 is that we can expect the market to continue to drive up values and multiples as prize assets become sought after by those more traditional investors as well as the so-called new entrants to the market such as the US REITs and US operators. However, although this may represent a general macro trend, there are a lot of other factors in the bidding process that a buyer can control, which can enable them to become a preferred bidder and get ahead in a competitive market place.