



De-Mystifying Senior Living Mergers, Acquisitions, Dispositions, and Affiliations

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Learning Objectives

- Understand what steps to take if a part of your business is not adding value to the enterprise.
- Learn how for-profit and not-for-profit “buyers” differ in their approach to valuing assets and implementing ownership changes.
- Understand sponsorship transition and M&A activity and trends in the market.
- Gain insights into a bankruptcy case and what happens to buildings and resident contracts.

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AGENDA

- Topic 1: Sponsorship Transition Trends and Overview
- Topic 2: Mergers and Acquisitions in Senior Housing and Care
- Topic 3: Considerations to Take Away
- Topic 4: Ziegler Resources

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SPONSORSHIP TRANSITION TRENDS AND OVERVIEW

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Why Consider Sponsorship Transition

- A number of organizations were pushed to the brink during COVID-19 and have concluded their business models may not be sustainable. What can be done in such a case?
 - Intervention leading to major change in business model and/or location - RARE
 - Change in leadership (can be third-party manager)
 - Change in Board
 - Change in ownership altogether – affiliation, or sponsorship transition, or outright sale
 - Joint ventures/partnerships to change revenue mix/cost structure
 - Last resort: Bankruptcy or Closure



Source: Ziegler Investment Banking

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Sponsorship Transition/Affiliation vs. Merger/SALE

- **Affiliation or Sponsorship Transition**
 - Affiliation describes a relationship between two or more parties; usually the two parties remain separate corporate entities, although one generally “controls” both
 - Control is usually in the form of restructured Articles of Incorporation & Bylaws and a management contract; often the affiliator becomes the sole corporate member of the affiliatee
 - Typically all assets and liabilities are included in the transaction
 - Capital may or may not change hands; sometimes the affiliator commits to \$x of capital support invested immediately or over time
 - The affiliatee may or may not join an existing obligated group for financing/refinancing purposes
 - This structure is for two not-for-profits

Source: Ziegler Investment Banking

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Sponsorship Transition/Affiliation vs. Merger/Acquisition

- **Merger, Acquisition, Sale**
 - A merger is a combination of two entities into a single entity
 - In an acquisition, one entity generally acquires the assets of another entity and either combines everything in the acquirer, or acquirer creates a new entity which assumes ownership of the acquired assets
 - Assets and liabilities may be acquired in whole or in part
 - Capital typically changes hands based on third-party valuations/appraisals of the assets and liabilities being purchased
 - May involve a for-profit and a not-for-profit, 2 for-profits or 2 not-for-profits

Source: Ziegler Investment Banking

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Sponsorship Transition Strategic Opportunities

COMMUNITIES IN TRANSITION

- Leadership turnover
- Occupancy or financial challenges
- Aging physical plant with limited ability to reinvest

RECOGNITION OF BENEFITS OF SCALE

- Strategic decision to affiliate to take advantage of greater scale
- Inability to recruit subject-matter experts in key areas (IT, clinical, HR, growth)
- “Mergers of equals”

COMMUNITIES WITH LAGGING SALES & OCCUPANCY

- New community or expansion project with fill-up difficulties
- Difficult competitor market
- Debt covenant violations/creditor pressures
- Liquidity issues

DISPOSAL OF UNDER-PERFORMING COMMUNITIES

- Organizations releasing non-core assets into the market
- Freestanding nursing home dispositions
- Hospital dispositions (seen as \$\$ in pandemic environment)
- NFP opportunities to acquire FP assets

Source: Ziegler Investment Banking

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NFP Senior Living Consolidation Primary Drivers

	1990	2000	2010	2022
Ability to Attract & Retain Talent		✓	✓	✓
Complexities of Healthcare		✓	✓	✓
Financial Pressures			✓	✓
Leadership Turnover		✓	✓	✓
Competition	✓		✓	✓
Board Strength				✓
Technology Demands		✓	✓	✓
Access to Capital	✓		✓	✓
Reinvestment Requirements				✓
Health System Consolidation		✓	✓	✓
Diversify Service Lines				✓

COVID-19 ACCELERATED

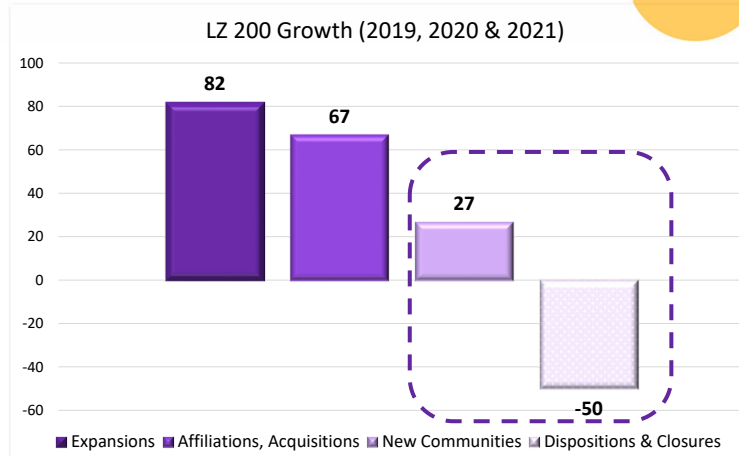
Source: Ziegler Investment Banking, March 2023

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NFP Senior Living Growth Over the Past Three Years

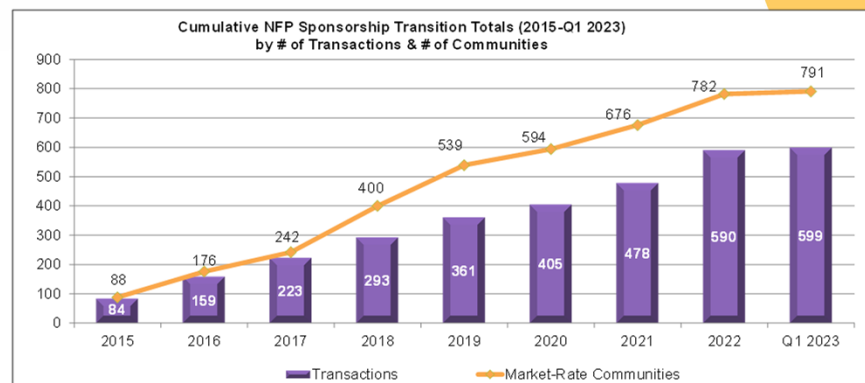
- Nearly all not-for-profit growth is coming from existing providers
- Number of closures and dispositions outpacing the number of new campus developments
- Increasingly, new developments without skilled nursing component



Sources: 2020, 2021 & 2022 LeadingAge Ziegler 200 Publications (data YE 12/31)

Sector Consolidation (2015 – Q1 2023)

- Since 2015, 50% have been dispositions to the FP sector (SNFs; distressed communities)
- LPCs are the most likely to stay NFP if up for ownership transition
- Increase in NFP closures the past two years

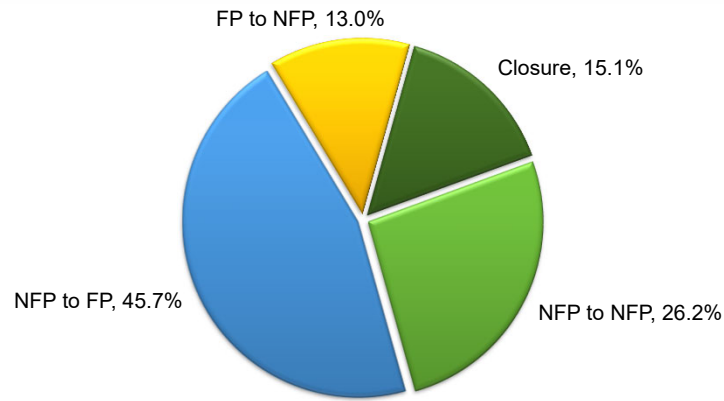


Source: Ziegler Investment Banking (3/31/2023)



NFP Change of Owner Transactions: 2015-Q1 2023

FP = for-profit
NFP = not-for-profit



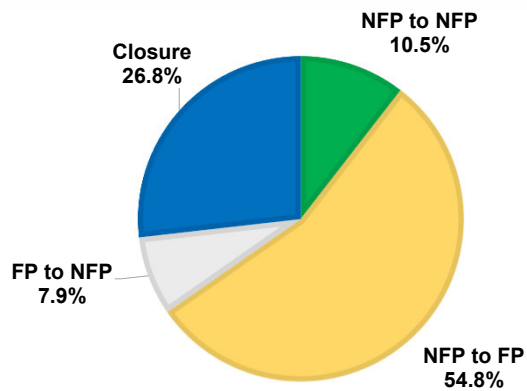
Source: Ziegler Investment Banking (3/31/2023)

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Not-for-Profit Freestanding Nursing Homes 2015 to Q1 2023

- Nearly 250 not-for-profit nursing homes have changed owner/sponsor or have closed since 2015
- Excludes CCRCs/life plan communities that have fully exited skilled nursing



Source: Ziegler Investment Banking (Data through 3/31/23)

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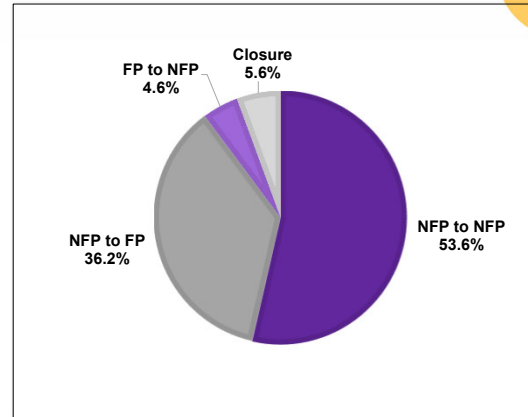
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LPC/CCRC Change of Sponsor/Owner Statistics 2015 to Q1 2023

Types of LPCs that are most likely to be sold to for-profit buyers:

- Financially distressed communities
- Communities with a heavy healthcare composition compared to ILUs

Nearly 200 LPCs have changed owner/sponsor since 2015



Source: Ziegler Investment Banking (Data through 3/31/2023); excludes ELGSS/Sanford Health Merger

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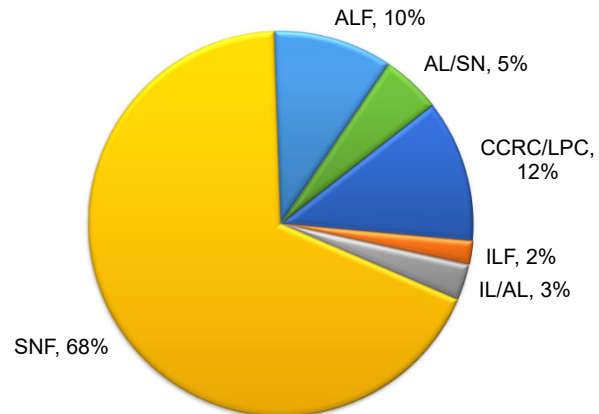
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A Profile of NFP Closures (2010-2023)

Nearly 120 since 2010. More than 40% of these closures have occurred since the onset of the pandemic in 2020

- Financially challenged
- Dated communities
- Rural markets
- Heavy healthcare pressures

NFP Closures (2010 – Q1 2023)



Source: Ziegler Investment Banking, 3/31/23

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Sponsorship Transition Case Study

Year: 2022



- **Location:** Seattle, WA
- **Type:** Single-Site AL/SN community
- **Size:** 211 total beds
- **Revenue:** \$21.4MM
- **Driver:** Recognition of benefits of greater scale in competitive market



- **Location:** Tacoma, WA
- **Type:** Single-Site LPC
- **Size:** Roughly 387 market-rate units
- **Revenue:** \$26.5MM
- **Driver:** Growth into multi-site provider; expansion into Seattle market

- **Process:** These two Lutheran organizations self-identified as affiliation partners with Ziegler engaged to facilitate the process.
- **Result:** Merger between two Lutheran single-site providers. Foss President and CEO Rick Henry retired, and Eliseo President and CEO Kevin McFeely stepped in as in as President and CEO for both communities.

Sources: Ziegler Sponsorship Transitions Practice, 2022

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Sponsorship Transitions Case Study

Year: 2022



- **Location:** Youngtown, AZ
- **Type¹:** Three communities in Phoenix AZ area
- **Size¹:** Roughly 700 market-rate units
- **Revenue¹:** \$28.4MM (Unrated)
- **Driver:** The affiliation with Bethesda will enlarge the organization's capacity to serve Arizona's fast-growing, senior population, and fortify LifeStream's position in Arizona's senior living industry.



- **Location:** Colorado Springs, CO
- **Type¹:** Multi-site organization
 - 18 communities; multi-state
- **Size¹:** 1,700+ market-rate units
- **Revenue¹:** \$89.5MM (Unrated)
- **Driver:** Strengthens Bethesda's position as a leading national operator.

- **Process:** LifeStream engaged Ziegler to conduct a comprehensive process to identify an affiliation partner. The board narrowed down the list of potential candidates based on mission, culture, values, prior affiliation experience, and financial strength and selected Bethesda as the affiliate partner of choice.
- **Result:** The Transition Agreement outlines Bethesda's intent to direct the operations of LifeStream's independent living, assisted living and memory care communities beginning on April 1, 2022.

Sources: ¹ 2021 LeadingAge Ziegler 200. All figures are prior to affiliation; revenue figures are rounded; Ziegler Sponsorship Transitions Practice

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Sponsorship Transition Case Study Year: 2021



- **Location:** Yakima, WA
- **Type:** Single-Site LPC
- **Size:** 287 units; it also controlled 25 acres of land previously purchased for future development
- **Revenue¹:** \$12.2MM
- **Driver:** CEO retirement; access to depth and resources vital to Living Care's future; secure scale, scope, influence and financial strength of larger organization



- **Location:** Pleasanton, CA
- **Type:** National provider
- **Size²:** Roughly 5,500 market-rate units and 5,200 Affordable Housing units (12 Market Rate campuses; 26 Affordable campuses)
- **Revenue²:** \$522,800,000
- **Driver:** Continued growth of west-coast footprint

- **Process:** Living Care engaged Ziegler to conduct a comprehensive process to identify an affiliation partner. The board narrowed down the list of potential candidates based on financial strength, shared values and prior affiliation experience.
- **Result:** The board ultimately selected Human Good because of its financial strength, history of successful affiliations, shared values, tenured leadership, and familiarity with the market as indicated by the presence of another attractive Human Good campus in town.

Sources: ¹ Revenue figures are unaudited for FYE2019, as annualized. Figures are prior to affiliation. ² Figures obtained from 2021 LZ 200 survey; figures rounded. Figures are prior to impact of affiliation. Ziegler Sponsorship Transitions Practice

Sponsorship Transition Case Study Year: 2021



- **Location:** Danville, CA
- **Type:** Single-site CCRC
- **Size¹:** 180 market-rate units (120 RCFE; 60 SN)
- **Revenue²:** \$17,000,000
- **Driver:** Complexities of operating a single-site community in competitive market. Understood benefit gained from having additional resources, healthcare expertise and ability to expand mission



- **Location:** Carmichael, CA
- **Type:** Multi-site organization
 - 1 LPC, 1 IL, 7 AL, 3 SNF, HCBS
- **Size¹:** 1,507 market-rate units
- **Revenue²:** \$148,807,000
- **Driver:** Continued growth of California footprint

- **Process:** Reutlinger's leadership identified the need for a strategic partner and conducted broad due diligence with Jewish and non-Jewish organizations
- **Result:** Additionally, Eskaton brought a Kaiser SNF contract, home care and home health, and a \$5 million capital contribution toward Reutlinger's capital plan. Eskaton also agreed to honor Reutlinger's historical Jewish affinity.

Sources: ¹ 2020 LeadingAge Ziegler 200; Reutlinger Leadership ² Some revenue figures obtained from GuideStar and LeadingAge Ziegler 200; figures rounded. Figures are prior to affiliation; Eskaton, 2021

Sponsorship Transition Phased Process & Timing

- Objective Process:
 - Define & Prioritize Criteria
 - Identify Candidates
 - Confidential Information Memorandum
 - Letter of Interest
 - Letter of Intent
 - Interview & Tour
 - Final Selection
 - Due Diligence
 - Close
- Essential Elements:
 - Dedicated Affiliation Committee
 - Consistent Criteria
 - Independent Analysis
 - Communication

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Mergers and Acquisitions in Senior Housing Care

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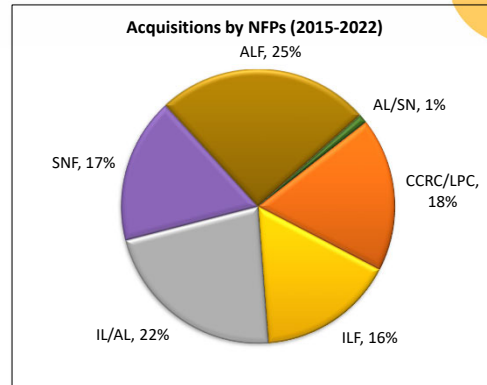


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What are NFPs Acquiring?

- Roughly 100 acquisitions since beginning of 2015
 - Cash/asset purchase
 - Limited to certain providers/orgs
 - Generally look for growth opportunities (build out existing footprint)
 - Activity has increased in past several years
 - Likely increased opportunity with COVID-19 pressures

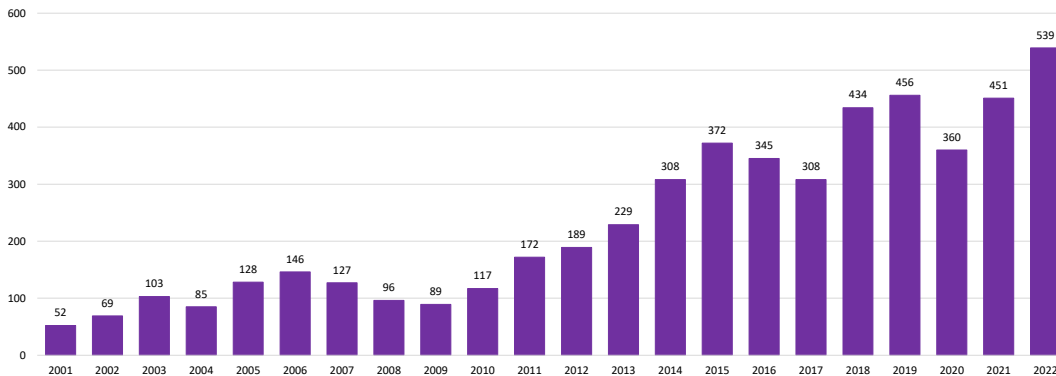


Source: Ziegler Investment Banking, 12/31/22

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Senior Housing M&A Activity

Publicly Announced Seniors Housing & Care Acquisitions (Includes For-Profit & Not-For-Profit) 2001 - 2022



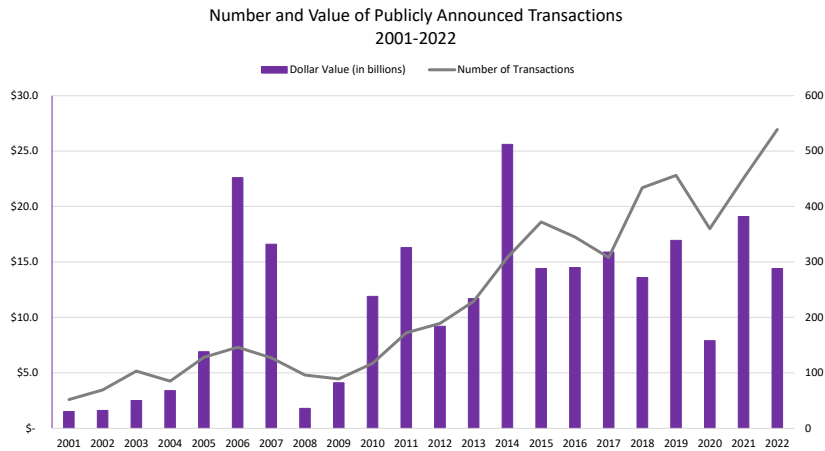
Sources: Irving Levin Associates, The Senior Care Acquisition Report, 2023

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Senior Living M&A Marketplace Trends

Transaction Volume

Total market capitalization of investment-grade seniors housing and care property in the US, which comprises approximately 23,000 properties containing nearly 2.9 million units, is estimated to be \$260 to \$290 billion



Sources: Irving Levin Associates, The Senior Care Acquisition Report, 2023

Typical M&A Structure

Asset Purchase (FP or NFP)

- Acquiring entity buys the “assets” of the selling entity
- Pre-closing liabilities remain responsibility of the seller
- Acquiring entity provides equity for acquisition

Sponsorship Transition (NFP)

- Acquiring entity “steps into the shoes” of the selling entity
- Pre-closing liabilities become responsibility of buyer
- Acquiring entity can assume selling entities capital structure. Minimal equity is required.

Valuation – What is a Capitalization (“Cap”) Rate

$$\text{Capitalization Rate} = \frac{\text{annual net operating income}}{\text{Cost (or value)}}$$

$$\text{Cost (or Value)} = \frac{\text{annual net operating income}}{\text{capitalization rate}}$$

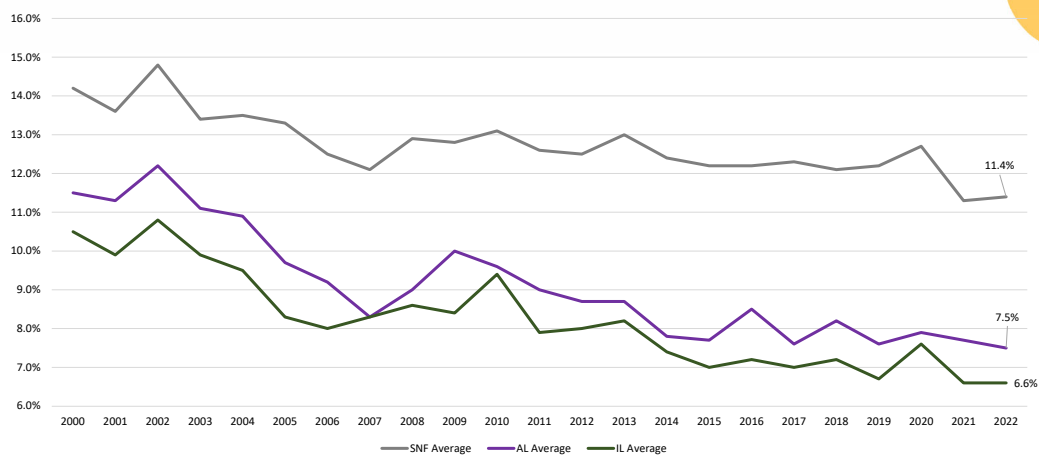
- The numerator is annual cash flow
 - Typically Net Operating Income or EBITDA (Earnings before Interest, Taxes, Depreciation, and Amortization)
 - Typically for the trailing 12 months
 - Be careful what “adjustments” are being made, and time period used – trailing or pro forma (future)

Sources: Ziegler Investment Banking

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Senior Housing & Care – Prevailing Capitalization Rates



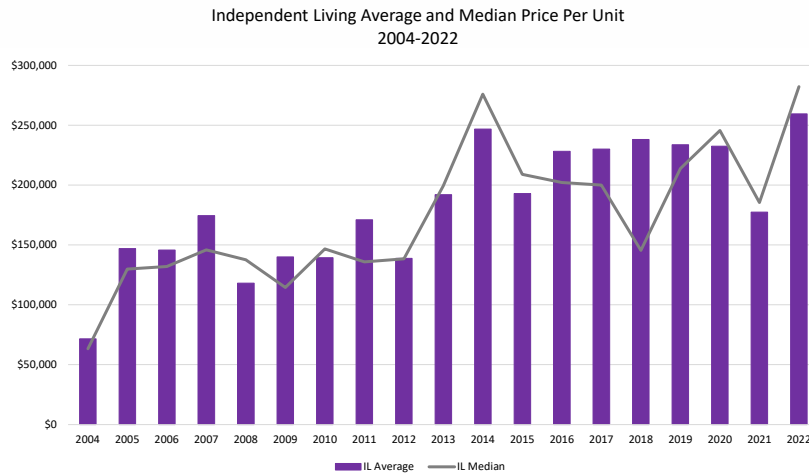
Source: The Senior Care Acquisition Report, 2023.

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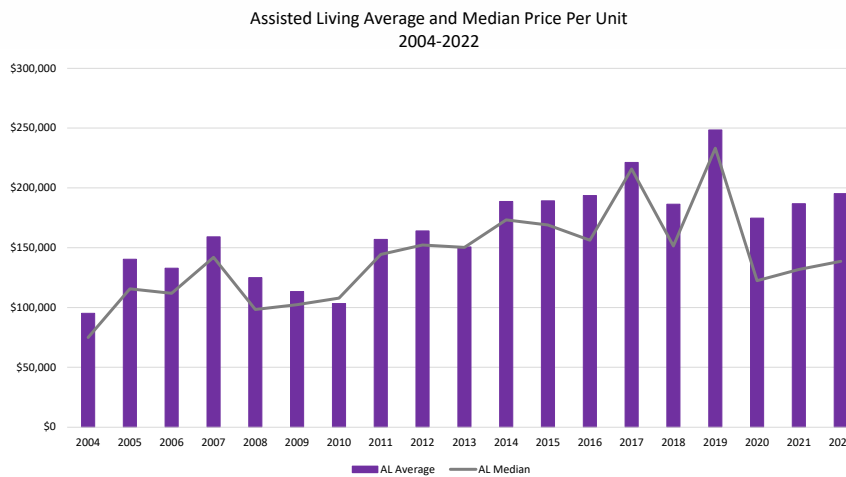
Senior Housing – Per Unit Valuations – Independent Living (IL)

The average price per unit for Independent Living dropped from \$232,500 in 2020 to \$177,400 in 2021, but is back up to \$259,400 in 2022.



Source: The Senior Care Acquisition Report, 2023.

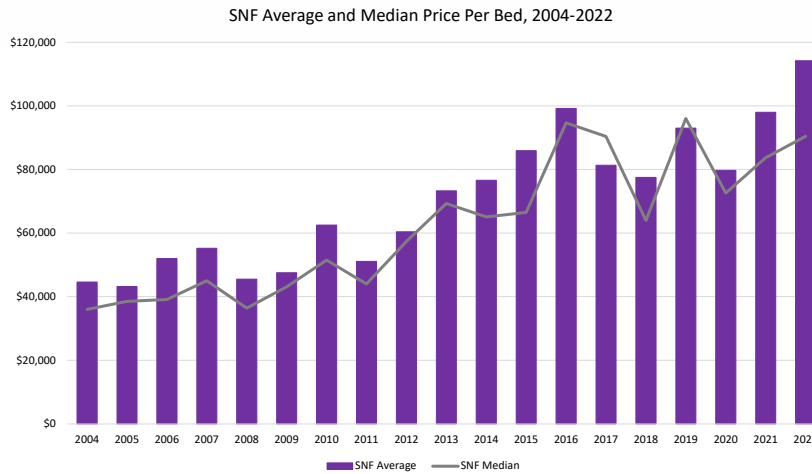
Senior Housing – Per Unit Valuation – Assisted Living (AL)



Source: The Senior Care Acquisition Report, 2023.

Senior Care – Per Bed Valuations – Skilled Nursing (SNF)

Demand for Skilled Nursing continues to be very strong, particularly in high barrier to entry states.



Source: The Senior Care Acquisition Report, 2023.

Case Study: California Nevada Methodist Homes (CNMH)

- CNMH declares bankruptcy
- Debtor in Possession (DIP) Financing
- Sale process undertaken
 - “Stalking Horse” bidder Chosen
- Bankruptcy auction occurs
- Winning bidder determined
 - Outcome for resident contracts
 - Outcome for future of CNMH campuses



Source: Ziegler Investment Banking

This client’s experience may not be representative of the experience of other clients, nor is it indicative of future performance or success.

Considerations to Take Away

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M&A Action Plan

PLAN A: PROACTIVE

You Choose to Act

PLAN B: REACTIVE

You Need to Act

PLAN C: REQUIRED

You Have to Act

Source: Ziegler Investment Banking

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Plan A: Proactive

PROACTIVE
You Choose to Act

- **More Time:** From a position of relative strength
- **More Choice:** Mutual attraction; interesting & interested
- **More Leverage:** “Must Have” & “No Can Do” . . .

DESIRED OUTCOME



- Asset Sale

Source: Ziegler Investment Banking

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Plan B: Reactive

REACTIVE
You Need to Act

- **Less Time:** Declining brand; growing pressures
- **Less Choice:** Swipe left; dance cards are full
- **Less Leverage:** Hat in hand . . .

LIKELY OUTCOME



- Affiliation or sale to best offer, if any.
- “White Knight” could emerge

Source: Ziegler Investment Banking

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Plan C: Required

REQUIRED
You Have to Act

- **No Time:** Violated existing obligations; remedies
- **Few Choices:** Subject to existing obligations; professionals
- **Lost Control:** Fait Accompli; Creditors in queue . . .

REQUIRED OUTCOME

- Asset sale to highest bid, **for-profit** or **not-for-profit**, or best offer

Source: Ziegler Investment Banking

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What You Should be Thinking About

- How is my organization balancing profitability, sustaining mission, desire to maintain control of our future, and access to resources?
- Can we continue as we have been? If not, do we need to examine the business lines we are in, or the macro ownership/leadership, or both?
- If change is needed, how can we avoid waiting too long?

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More Questions to Ask in Your Organization

More questions to ask

Yes or No?

Do we have a clear plan of succession for the pending retirement of our long-time CEO, to ensure strength moving forward?

Do we have the resources needed to bring an aging physical plant up to par for current and future residents?

Are we knowledgeable enough and strong enough to be able to compete in this rapidly changing healthcare environment?

Are we in a position of financial strength such that we are a strong candidate for borrowing needed capital?

Do we have the expertise and resources to keep up with the technological needs of our organization?

Do we have the size and scope of operations to be a provider with influence in our local/regional market(s)?

Are we one of the top leaders in our marketplace?

Do we have strong occupancy and a prospective flow of residents interested in our community?

Are we confident we can fulfill debt payment obligations in the near- and medium-term?

If we wanted to grow organically on our own, how confident are we in our success?

Source: Ziegler Investment Banking

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DISCUSSION, QUESTIONS, ANSWERS



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-  **190+** Professionals
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-  **19** Offices Nationally



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-  **INSIGHT**

-  **BREADTH OF SERVICES**
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Ziegler Investment Banking, Senior Living Finance



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Mary Muñoz joined the senior living team at Ziegler in 1999. She manages the western region of Ziegler's senior living practice.

Mary works with a broad variety of senior living communities and multi-facility systems in strategic planning for growth, as well as creative financing strategies. She has extensive experience with start-up CCRC projects, campus expansions and redevelopments, and refinancings. She also specializes in financing senior living mergers and acquisitions, and in strategic and capital planning consulting services. Mary's senior living bond transactions since joining Ziegler total over \$7 billion in par amount.

Prior to joining Ziegler, Mary spent 12 years in a variety of healthcare lending and corporate finance roles. Immediately prior to joining Ziegler, she was a managing director in KPMG's Health Ventures practice. She worked with clients on strategic capital planning, private equity financing, and business plan development. While at KPMG, she structured and executed over \$500 million of senior and subordinated debt offerings for healthcare clients. Prior to joining KPMG, Mary managed the national healthcare finance groups at Wells Fargo Bank and The Bank of Nova Scotia, raising over \$5 billion to fund healthcare provider mergers and acquisitions and leveraged recapitalizations.

Mary is a frequent speaker at state and national conferences on a wide variety of senior living topics, and has published numerous articles on senior living finance and credit topics. She received a B.A. and a M.B.A. from Emory University, Atlanta, Georgia. Mary holds Series 7, 66, 53 and 24 licenses.

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Steve Johnson joined the senior living team at Ziegler in 1999. His primary responsibility is to serve the investment banking needs of senior living organizations in Illinois, Minnesota, Wisconsin, and Indiana. His areas of expertise include the financing of start-up projects, campus repositionings, major expansions, and the workout of troubled facilities.

Most recently his focus has included advising senior living systems on growth through divestitures, acquisitions and new projects. Over the last twelve years, Steve has senior managed or co-senior managed more than 45 public debt offerings – raising more than \$2.5 billion through a variety of diverse capital structures. In all of these activities, he has become a leading authority on the metro-Chicago senior living marketplace.

Prior to joining Ziegler, Steve had served as executive director of one of the nation's premiere senior living organizations, Willow Valley Retirement Communities. For more than five years, he served as an evaluator and team chair for the Continuing Care Accreditation Commission (CCARF-CCAC). Previously, he worked for a leading venture firm in the Silicon Valley of northern California. There, he participated in raising and managing more than \$50 million of private equity in both the United States and Japan.

Steve received a M.B.A. from Northwestern University's Kellogg Graduate School of Management, Evanston, IL and a B.A. from Wheaton College, Wheaton, IL.



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Marie Carlson is Director in the Senior Living Sponsorship Transition Advisory Practice at Ziegler's Chicago office.

Marie has been in the senior living sector for over 30 years. Her prior experience has included serving as CFO, SVP-Strategic Development, and Interim VP-Finance at two different multi-site providers, with responsibilities including financial, regulatory, and operational reporting for internal and external users. She has participated in the disposition and acquisition of senior living campuses and multiple bond financings.

In addition to the CFO and development roles, Marie worked at Ponder & Co. providing financial advisory services to senior living clients related to tax exempt bond financings. Previous experience at KPMG for eight years — exclusively in its senior living practice — included performing financial feasibility studies, market demand analyses, financial projections, troubled debt restructurings, and audits.

Marie has served as a surveyor for the Commission on Accreditation of Rehabilitation Facilities/Continuing Care Accreditation Commission and on the Finance Committee for LeadingAge Illinois. She has a B.S. in accountancy from the University of Illinois—Chicago and is a CPA

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Dan Revie joined Ziegler in 2000. As a Managing Director and co-practice head, he is responsible for the management of the firm's Senior Housing & Care Finance Practice. Dan specializes in strategic advisory assignments including: mergers, acquisitions, divestitures, and recapitalizations, as well as financial advisory services for healthcare entities including: skilled nursing, assisted living, memory care facilities, and entrance fee and rental continuing care retirement communities / life plan communities.

During his 20+ years with Ziegler, Dan has completed numerous M&A assignments for public, private, and non-profit organizations. Dan has been involved with several recapitalization assignments for large assisted living and skilled nursing portfolios. He has also frequently represented Ziegler's nonprofit clients with divesting non-core assets. Recently, Dan and his team have been heavily involved with distressed situations in the senior and long-term care living space. Dan also has extensive experience with FHA/HUD financing programs.

Dan's background is in accounting. Prior to joining Ziegler he worked as an audit manager for PriceWaterhouseCoopers, and an accounting manager for Northwestern Mutual.

Dan holds undergraduate degrees in accounting and finance from the University of Wisconsin – Madison, and an M.B.A. from the University of Wisconsin – Milwaukee. Dan is also a certified public accountant.

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- Founded in 1902, Ziegler specializes in the healthcare, senior living and educational sectors as well as general municipal finance

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