



Capital Markets

## 2019 Leading Age New Jersey

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### If You're Not at the Table... Inspiration vs. Desperation

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# BB&T Capital Markets Introduction

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# Objectives

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## ➤ Laying the Foundation

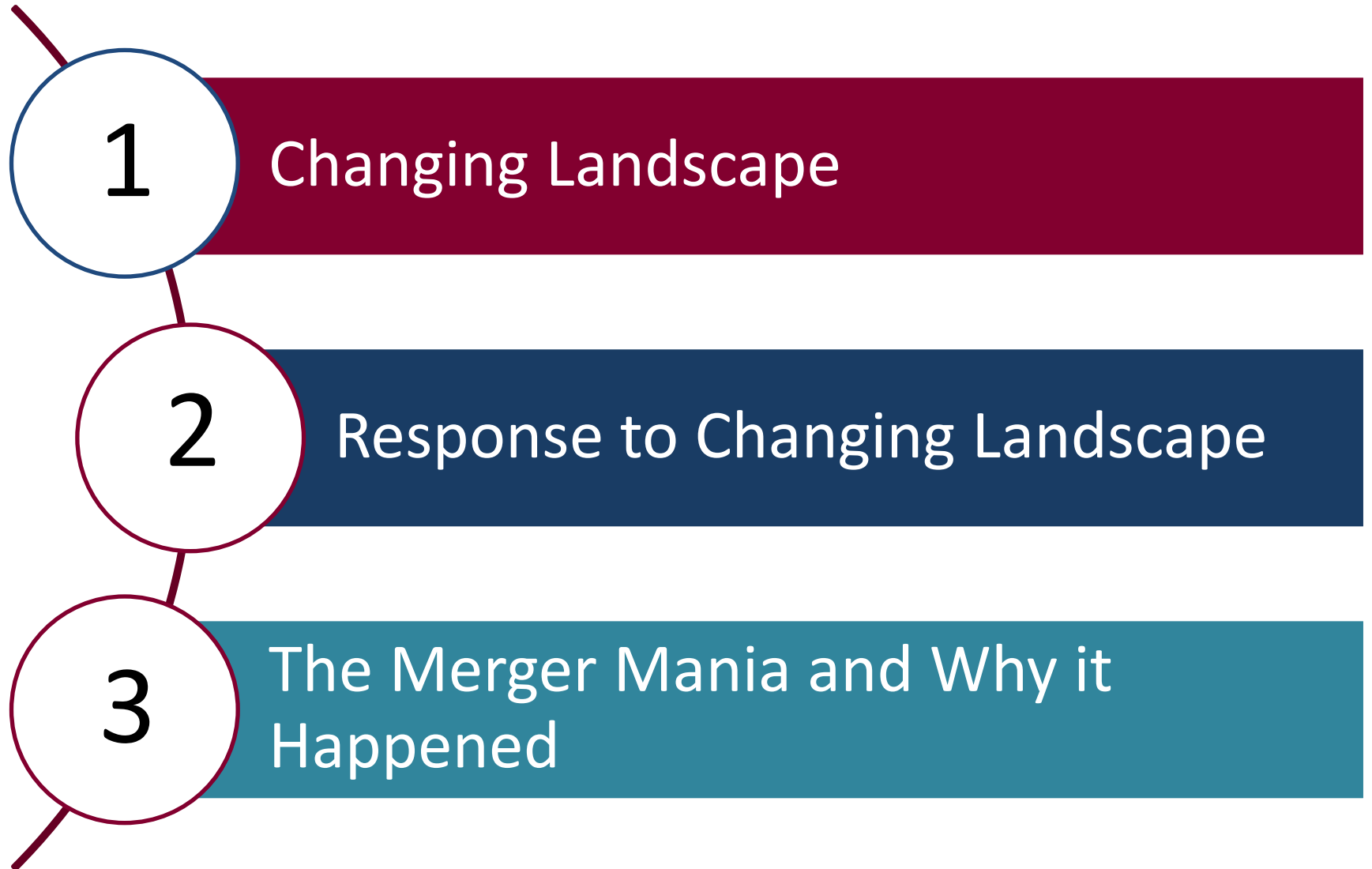
- A Case Study – the NFP Hospital Industry
- Understanding Current Senior Living Industry Dynamics

## ➤ How to Position Your Organization for Success

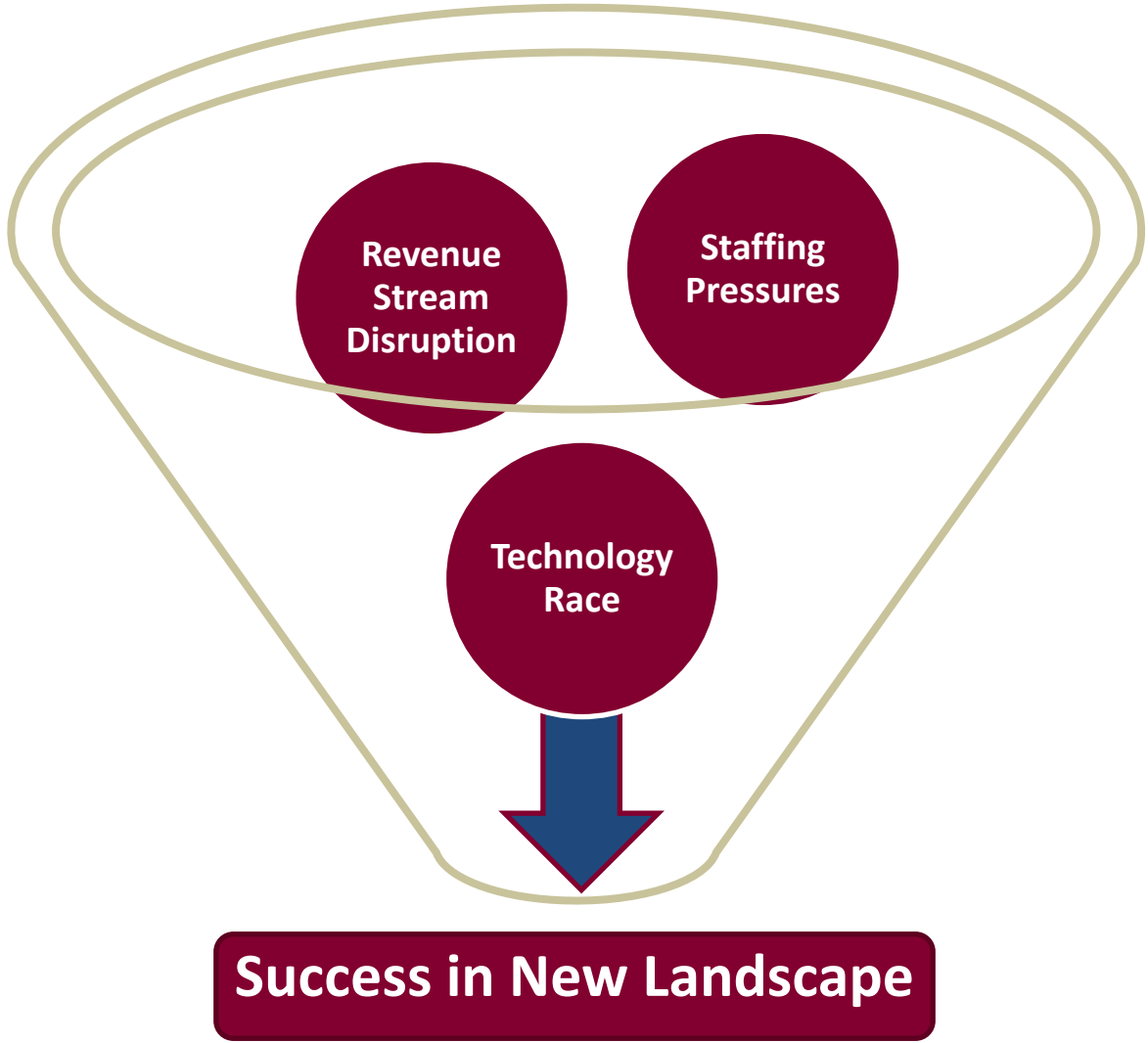
## ➤ Describing the Process

- Sample Matrix Tool

# Case Study – The NFP Hospital Industry



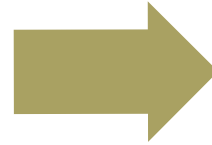
# The Changing Landscape in the NFP Hospital World



# Evolution to Revolution?

## Initial Response

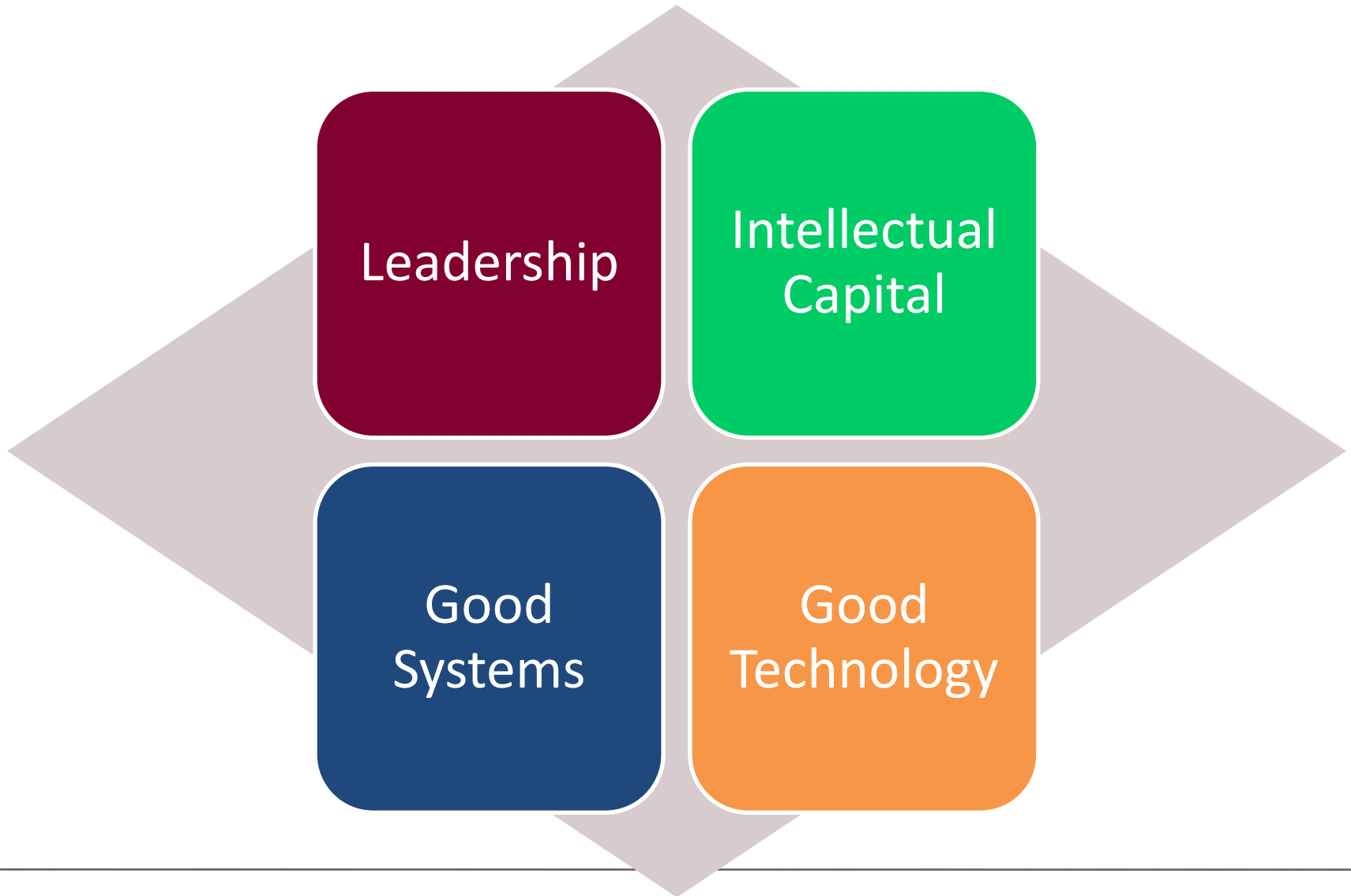
- More Capital
- More Sophistication
- More Focus on Employees
- Stronger Leadership
- Better Governance



## Consolidation

- Capital Event
- Leadership Vacancy
- Board Fatigue
- Everyone Else is Doing it

# A Framework – The Four Cornerstones



# A Recent Hospital Merger – Ballard Health

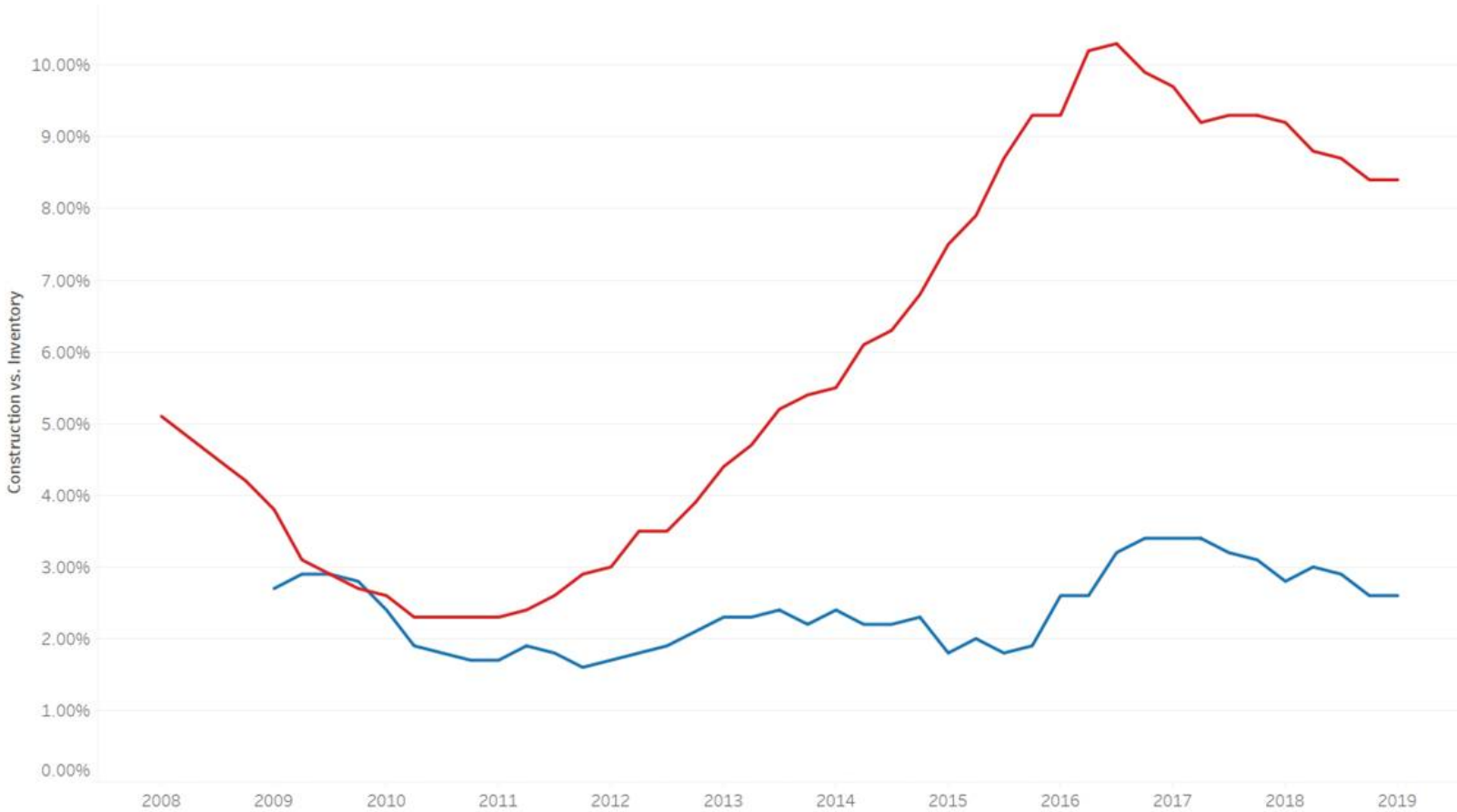
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- Closed: June 2018
- Merger of Mountain States Health Alliance (14 hospitals in 4 states) and Wellmont Health System (7 hospitals in 2 states)
- Ballard Health formed to be “super parent” – not traditional merger
- Over \$1 Billion of debt needed to be addressed
  - MTI’s amended and substituted
- Acquisition allowed assets to be valued higher
  - Market Value vs. Cost Basis
- Considerations during merger included purpose, desired endgame, culture, internal champions



# Senior Living Construction is Robust

## Senior Living Construction vs. Inventory by Year-End



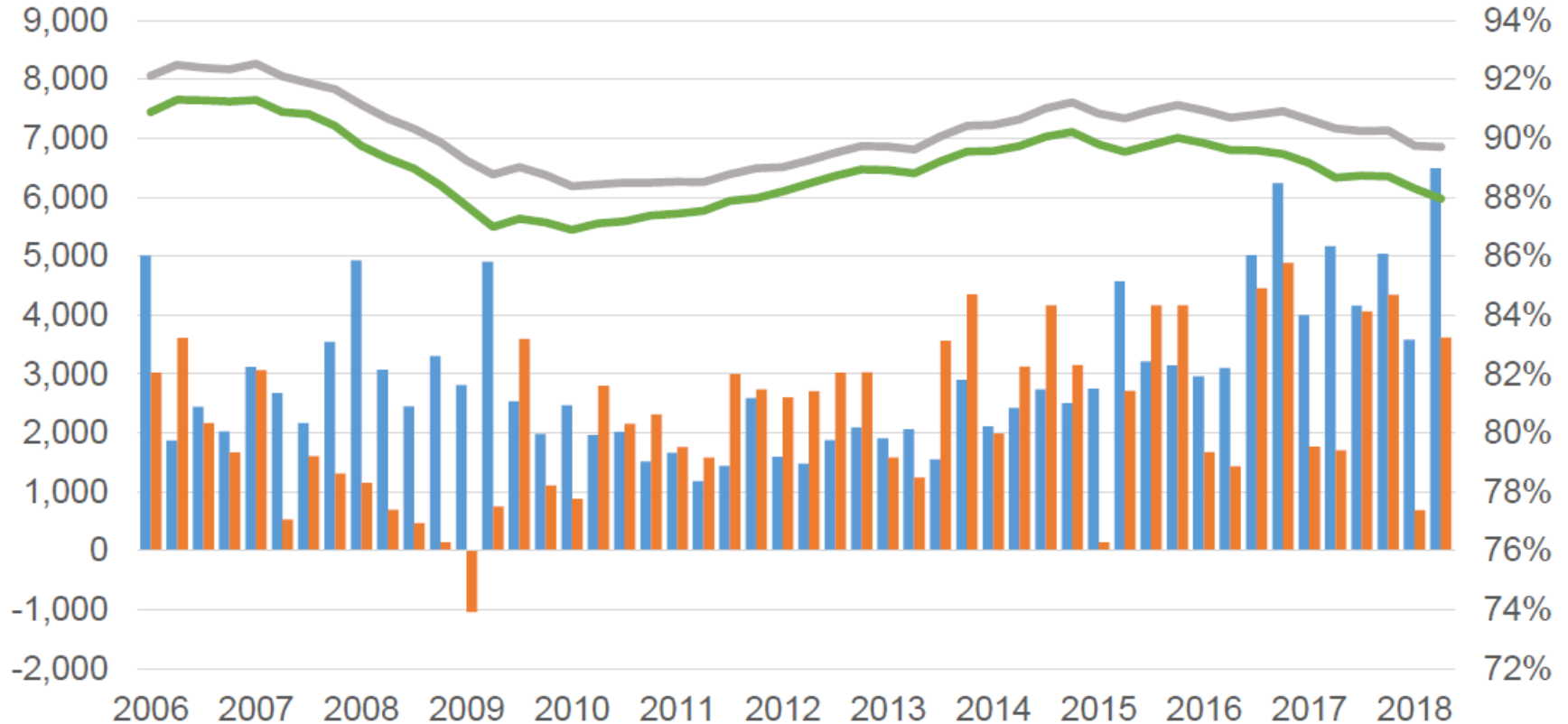
Type  
■ For-Profit  
■ Not-For-Profit

Source: NIC MAP

# Seniors Housing Fundamentals

## Primary Markets | 1Q06-2Q18

■ Inventory Growth  
■ Absorption  
— All Occupancy  
— Stabilized Occupancy

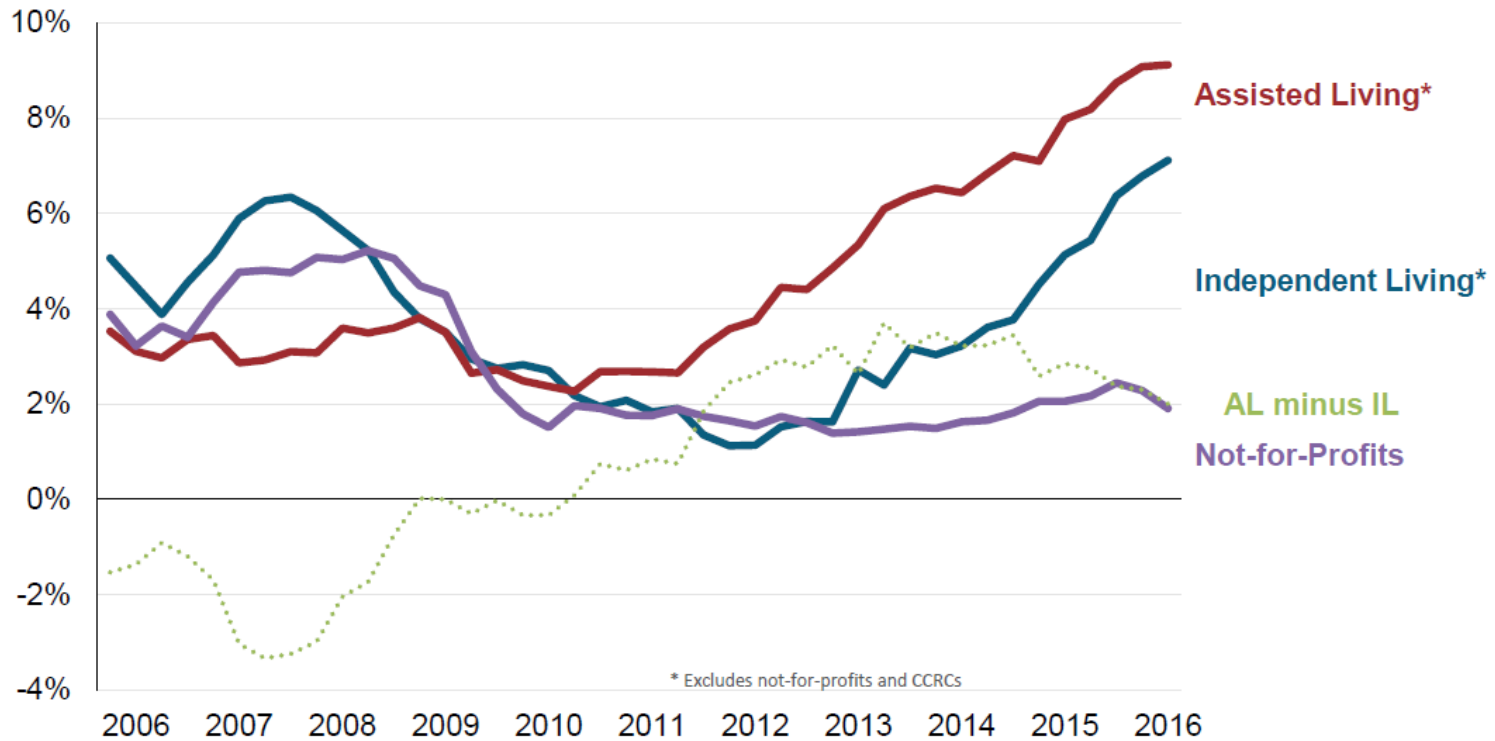


Source: NIC MAP® Data Service

# For Profits are Growing

## ... And Are Growing Aggressively

Construction vs. Inventory; MAP31  
Seniors Housing | 4Q05 – 1Q16

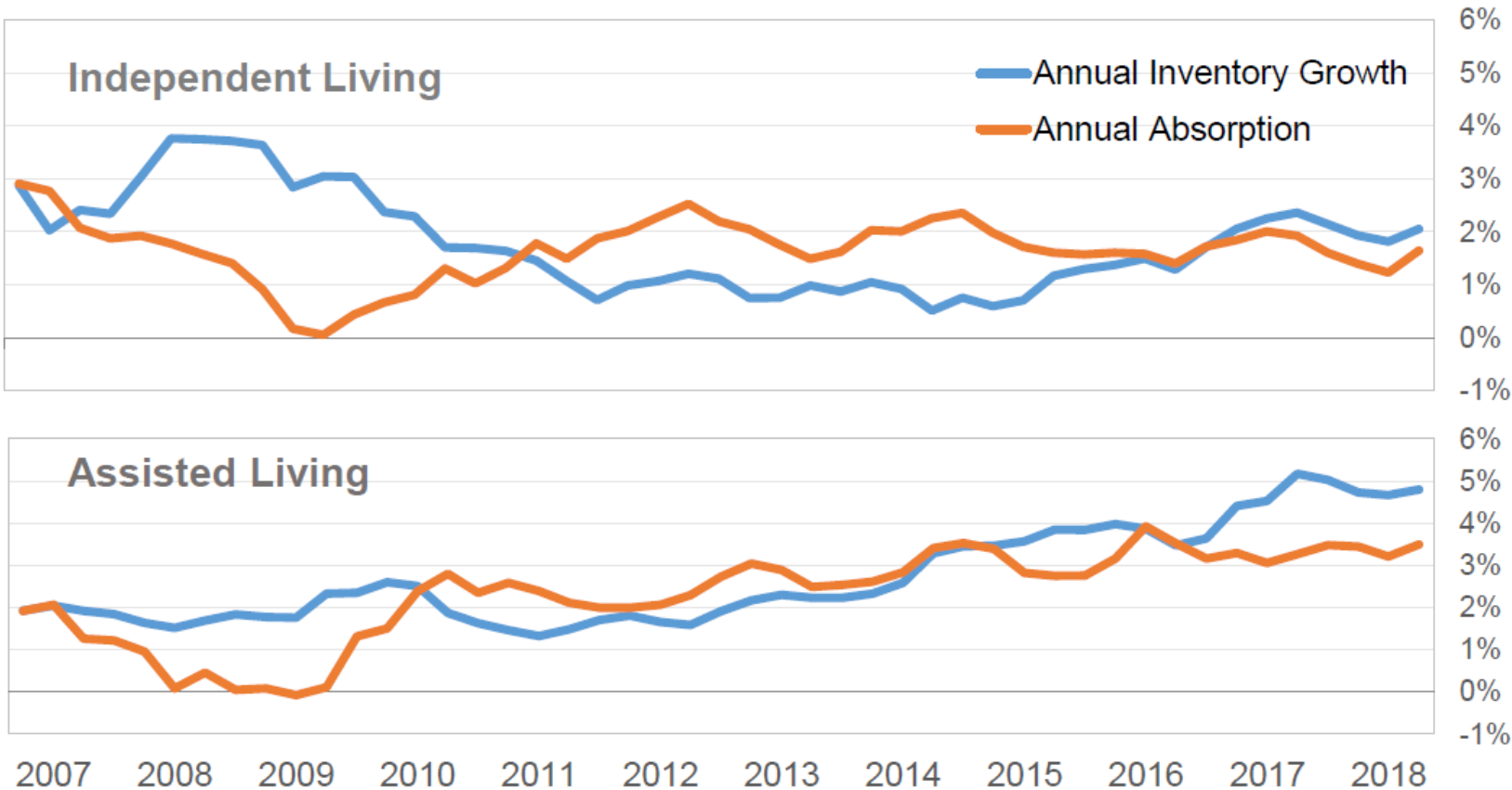


\* Excludes not-for-profits and CCRCs

Source: NIC MAP Data Service

# Assisted Living is Being Overbuilt Again

**Annual Inventory Growth Rate and Annual Absorption**  
 Primary Markets | 1Q06 – 2Q218



Source: NIC MAP® Data Service

# For Profits are Larger

	<i>Total Units</i>	<i># of Communities</i>	<i>Average Units in Community</i>
<b>For Profit*</b>			
Brookdale Senior Living	63,351	647	98
Holiday Retirement	22,914	185	124
Sunrise Senior Living	20,439	248	82
Atria Senior Living	18,722	155	121
Five Star Senior Living	13,495	131	103
	<b>138,921</b>	<b>1,366</b>	<b>102</b>
<b>Not-for-Profit**</b>			
National Senior Campuses	19,645	16	1,228
Evangelical Lutheran Good Samaritan Society	17,343	163	106
Acts Retirement Services, Inc.	8,370	22	380
Presbyterian Homes and Services	7,433	42	177
Covenant Retirement Communities	4,901	17	288
	<b>57,692</b>	<b>260</b>	<b>222</b>

Sources: \* For Profit – Exhibit 1.1 2018 NIC Investment Guide

\*\*Not-for-Profit – Exhibit 3-1a 2018 LZ 200

# Is There a For-Profit Advantage to Growth?

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## ➤ For Profit Advantages

- Access to Capital
- Able to react quickly to new opportunities
- Able to make strategic decisions based on margin alone

## ➤ Not For Profit Advantages

- Able to access 'cheaper' Capital
- Able to Fundraise
- Margin alone does not drive decisions (Long-Term View)

# Mission No-Longer Differentiating Factor

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## ➤ Sample Mission Statements:

- Entity A: “Enrich the lives of older adults through gracious retirement living, spiritual growth, cultural and educational opportunities and health care services.”
- Entity B: “Enriching the lives of those we serve with compassion, respect, excellence, and integrity.”
- Entity C: “Everything we do, we do for Residents.”
- Entity D: “Provide high-quality services in a caring and personalized atmosphere that respects the dignity, encourages the independence, and enhances the quality of life of each resident.”

*Answers: A = NFP St. John's, B = FP Brookdale, C = FP LCS, D = NFP Attic Angel*

# Issues Impacting Success





# How to Create Success in Changing Environment

## ➤ Strategic Plan

- Honest View of Yourself
- What is your Vision for your Future

## ➤ Board Education

- What is happening in the SL Market

## ➤ Board Tools to Deliver a Plan

*Starts and  
Ends with  
Board  
Education &  
Discussions*

# Strategic Planning

- Not necessarily brick & mortar focused
- Honest View of Yourself
  - Single Sites
  - Multi Sites
- What do you want to be when you grow up?
- How can you best fulfill your Mission?



## CREATING INSPIRATION

Acknowledge  
Uncertainty

Nothing is off  
the Table

Change is  
Certain

Be Open to  
Unexpected  
Solutions

Adopt For-Profit  
Mindset

Use Resources  
External &  
Internal

The Past Does  
Not Define the  
Future

Demonstrate  
Leadership

# What Drives Partnerships

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## ➤ Leadership Retirement

- 40% of CEOs in next 5 years/75% in next 10 years
- Attract better talent

## ➤ Financial Distress

- Waited too long
- Bondholder or Bank led

## ➤ Age of Plant

## ➤ Health Care

- Additional programs and services
- Innovation

## ➤ Access to Capital

## ➤ Expansion of Mission

# Types of Partnerships

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## ➤ Collaborations

- Efficiencies

## ➤ Alliances

- Remain Competitive

## ➤ Management Agreement

- Too Small
- Change in Leadership

## ➤ Joint Ventures

- Expansion of Services

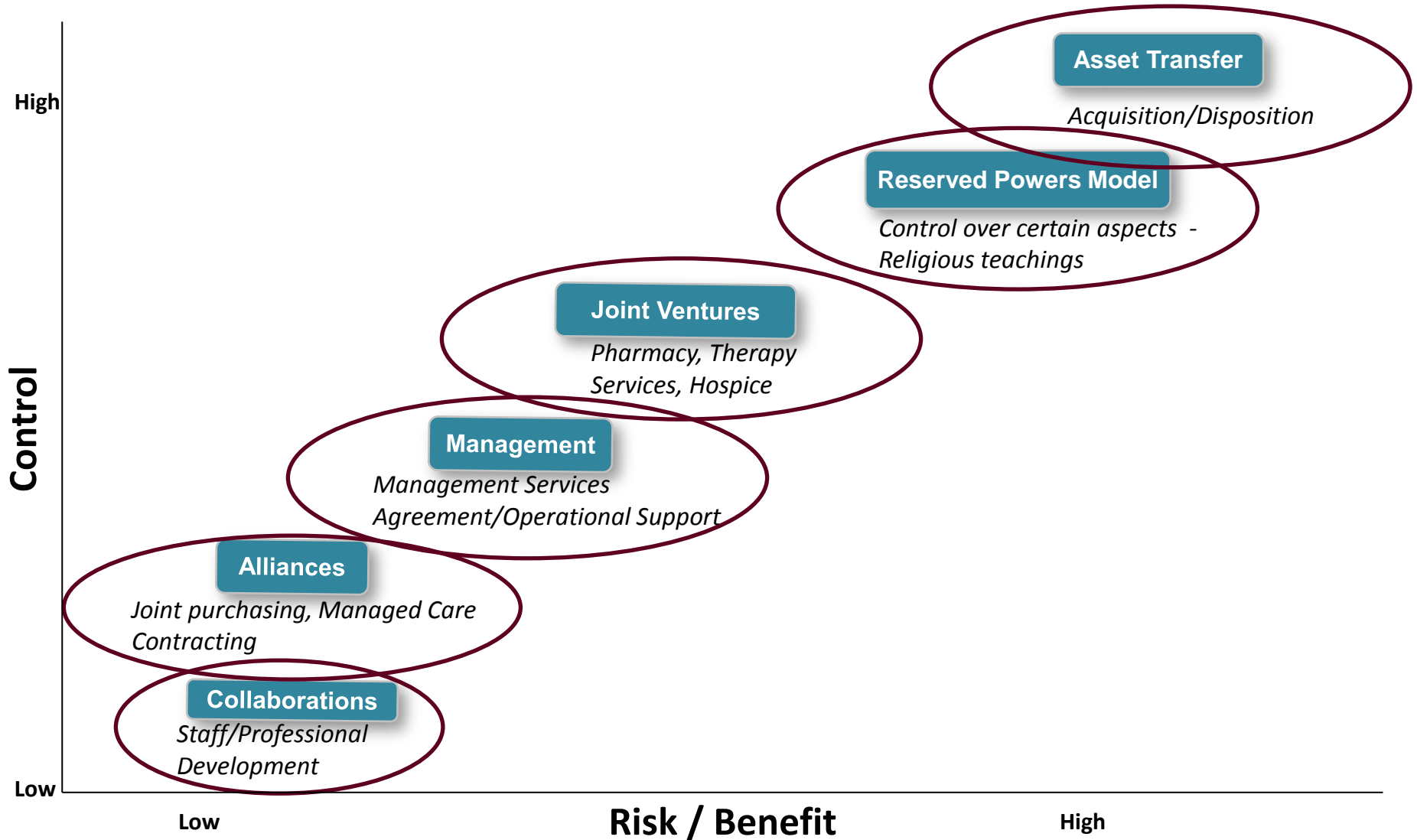
## ➤ Reserved Powers

- Strengthen Mission

## ➤ Asset Transfer

- Operational/Mission preservation or growth

# Partnerships and Control/Benefits Relationship



# Board Discussions – Preliminary Education

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- Industry Trends
  - You're not the first to go down this road
  
- Types of Corporate Structures
  
- Benefits of Considering Partnership/Affiliations
  
- Process

## Board Discussion – Affiliations

- If result of the Board Education and the Strategic Plan are such that Affiliations, Partnerships, or Sponsorship Transitions are even a potential – take the extra step to further define what exactly you'll consider
  
- Be Pro-Active to Increase your chances for:
  - Being successful
  - Being responsive
  - Achieving Board buy-in





# Board Alignment

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- Board composition critical; change it if necessary
- Ongoing Board education critical
- Ask the tough questions; have the tough conversations
- Reframe the mindset around mission and vision as a reason to do something versus doing nothing
- Execute due diligence; don't guess
- Leverage what exists; create synergy
- Rethink organizational role in the market: advocates, collaborators; not just providers

## Culture is Critical to a Successful Outcome

### Driving Forces

- Tradition
- Unspoken Rules
- Practices
- Ethos – Sense of Place
- Behaviors

### Guiding Forces

- Strategy
- Goals / Objectives
- Policies
- Formal Messaging
- Activities

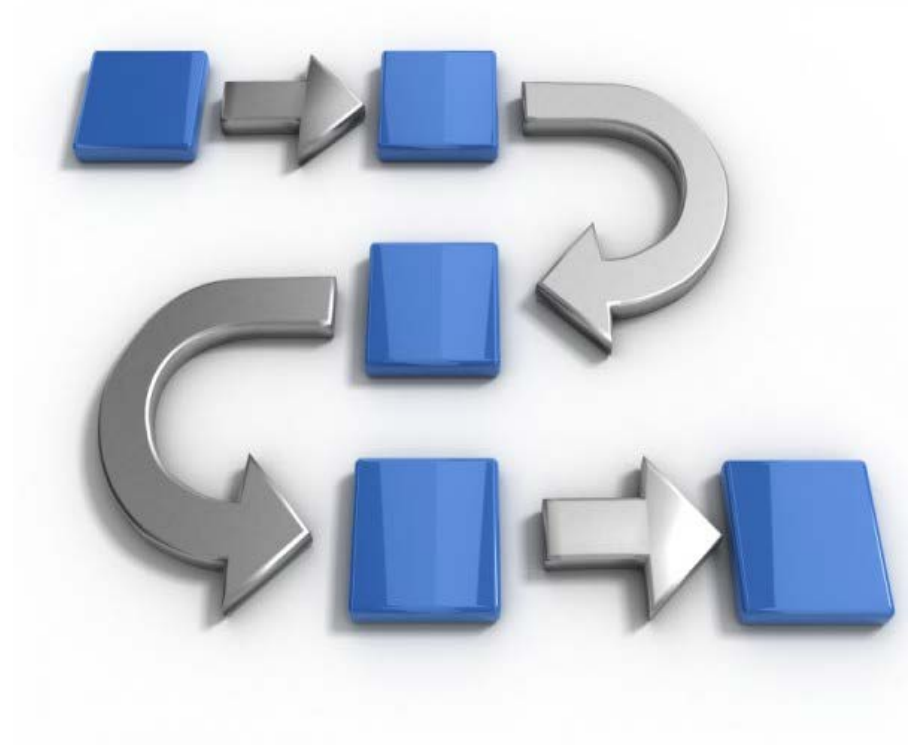
Source: MHS Consulting

## Simultaneous Internal and External Process

- What Types of Providers Do We Want to Talk to
  - Faith-based or not (and which)
  - For-Profit/Non-Profit
  - Local/Regional/National
- Profile Potentials
- Prepare Opportunity Memorandum
  - History, Mission
  - Operations
  - Financials
- Non Disclosure Agreement

## Sell Side Process (Continued)

- Distribute Opportunity Memorandum
- Receive Indication
- Interviews
- Comparison Matrix
- Chosen Partner
- Due Diligence
- Documentation
- Close



# Use of Tools

- Meant to be a Tool
  - Not end-all-be-all
- Forces everyone to agree on what looking for
- If looking for the perfect match – may be single forever



# Board Tool – Matrix Tool

- What does our ideal situation look like
  - What factors do we use to describe that situation
    - Location
    - Levels of Care
  - What other factors should we consider
- Define what is ideal vs. less preferable for each factor
- Relativity – which areas are more important than others



# Matrix Example

<b>Matrix to Quantify Interest in Opportunities</b>					
	<b>Weight</b>	<b>3 Ideal</b>	<b>2 Acceptable</b>	<b>1 or 0 Luke-warm</b>	<b>Score</b>
<b>Level(s) of Care</b>	3x	Levels currently identified need to 'fill out' in our current offering	Levels currently identified need to 'fill out' in our current offering plus other levels	Levels not needed (ie SNF?)	
	<i>Score</i>				
<b>Proximity of Location</b>	2x	Within the same county	Within 90 minute drive	Further than 90 minute drive away	
	<i>Score</i>				
<b>Facility location</b>	1x	1st Ring Suburban	Urban	Rural	
	<i>Score</i>				

# Matrix Example

<b>Matrix to Quantify Interest in Opportunities</b>					
	<b>Weight</b>	<b>3 Ideal</b>	<b>2 Acceptable</b>	<b>1 or 0 Luke-warm</b>	<b>Score</b>
<b>Financial Strength</b>	3x	Solid	Breakeven	Troubled	
<i>Score</i>					
<b>Quality of Care</b>	3x	High Level/5 Star	Mid Level	Troubled	
<i>Score</i>					
<b>Occupancy</b>	2x	> 95% occupancy	83% - 94% occupancy	< 82% occupancy	
<i>Score</i>					
<b>Their Board Willingness</b>	1x	Pro-active Engaged board	Luke-warm	'Hostile Take-over'	
<i>Score</i>					



# Matrix Example

Matrix to Quantify Interest in Opportunities					
	Weight	3 Ideal	2 Acceptable	1 or 0 Luke-warm	Score
Timing - how does this fit with our current situation <i>Score</i>	2x	Perfect Timing - ready and willing for challenge	Not ideal but don't want to miss on opportunity	Too much happening at our community to think about	
Capital Outlay required <i>Score</i>	2x	\$0	\$0 Outlay - assumption of 'reasonable' amount of debt	Significant cash outlay upfront	
Facility condition <i>Score</i>	2x	Well maintained	Well maintained but some deferred maintenance	Significant deferred maintenance	
Facility lay-out <i>Score</i>	2x	Very Good	Not ideal but marketable	Need to change (ie semi-private rooms)	

# Matrix Example

<b>Matrix to Quantify Interest in Opportunities</b>					
	<b>Weight</b>	<b>3 Ideal</b>	<b>2 Acceptable</b>	<b>1 or 0 Luke-warm</b>	<b>Score</b>
<b>Staff</b> <i>Score</i>	1x	Solid and dedicated	Average	Average	
<b>Current ownership</b> <i>Score</i>	1x	Non-Profit	Private For Profit	County	
<b>Faith/Sponsorship</b> <i>Score</i>	1x	Same as ours	'Compatible' Faith to ours	'Incompatible' faith to ours	
<b>Ease to close</b> <i>Score</i>	1x	Same as ours	Reasonable	Tedious	

## Matrix Example - Scoring

- Each factor is weighted
- Determine Minimum and Maximum total points available

	Top Third	Middle Third	Bottom Third	
Totals	53-78 points	27-52 points	0-26 points	78 possible points

- Run a couple dummy-scenarios through matrix to double-check weighting
- Prevent second guessing when it goes live

*Factors, preferences, and weighting can be completely customized.*

# A Case Study – The Wrong Way

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## ➤ **Board #1:**

- Unnecessary desperation communicated by senior leadership
- Lack of due diligence
- No clear strategy or expressed outcome
- Unreasonable terms and expectations
- Cultural issues between collaborating providers

## A Case Study – The Right Way

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### ➤ **Board #2:**

- Board development, education and composition
- Helped board members leave with grace and dignity
- Developed clear strategy of expectations and non-negotiables
- Engaged outside support where needed
- Focused on the organizational need; not personal agendas
- Developed realistic timeline to include before, during and after transition plans
- Courted multiple prospective partners
- Agreed to and embraced transparency at all times
- Over-communicated

# Parting Shots

- Many benefits from partnerships
- Education
- Honest Assessments and Discussions
- Be Prepared
  - Be Proactive with Board
  - Know the For-Profits are prepared
- Preservation and Strengthening of Mission

*If you're not  
at the table,  
you're  
probably on  
the menu*

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