If You’re Not at the Table… Inspiration vs. Desperation

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BB&T Capital Markets Introduction

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Objectives

- 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

1. Changing Landscape

2. Response to Changing Landscape

3. The Merger Mania and Why it Happened
The Changing Landscape in the NFP Hospital World

Success in New Landscape

- Revenue Stream Disruption
- Staffing Pressures
- Technology Race
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

- Leadership
- Intellectual Capital
- Good Systems
- Good Technology
A Recent Hospital Merger – Ballad Health

- Closed: June 2018
- Merger of Mountain States Health Alliance (14 hospitals in 4 states) and Wellmont Health System (7 hospitals in 2 states)
- Ballad 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

Source: NIC MAP
Focus. Depth. Certainty.

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

*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

Independent Living

Assisted Living

Source: NIC MAP® Data Service
# For Profits are Larger

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

**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?

- 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

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

- Loss of Local Identity
- Home Care, Hospice Strategies
- Revenue Stream Disruption
- Financial Capital
- Staffing
- Board Agility
- Technology Innovation
- Health Care Navigation
- Market Relevance
- PDPM
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**
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
- Be Open to Unexpected Solutions
- The Past Does Not Define the Future
- Change is Certain
- Use Resources External & Internal
- Nothing is off the Table
- Adopt For-Profit Mindset
- Demonstrate Leadership

Focus. Depth. Certainty.
What Drives Partnerships

- **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

- **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

- **Low Risk / Benefit**
  - **Collaborations**
    - Staff/Professional Development
  - **Alliances**
    - Joint purchasing, Managed Care Contracting
  - **Management**
    - Management Services Agreement/Operational Support
  - **Joint Ventures**
    - Pharmacy, Therapy Services, Hospice
  - **Reserved Powers Model**
    - Control over certain aspects - Religious teachings
  - **Asset Transfer**
    - Acquisition/Disposition

- **High Risk / Benefit**
  - **High Control**
    - Joint Purchasing, Managed Care Contracting
    - Contracting
    - Staff/Professional Development
    - Management Services Agreement/Operational Support
    - Pharmacy, Therapy Services, Hospice
    - Control over certain aspects - Religious teachings
    - Acquisition/Disposition
Board Discussions – Preliminary Education

➢ 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

- 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
### Understanding Corporate Culture

**Culture is Critical to a Successful Outcome**

<table>
<thead>
<tr>
<th>Driving Forces</th>
<th>Guiding Forces</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tradition</td>
<td>Strategy</td>
</tr>
<tr>
<td>Unspoken Rules</td>
<td>Goals / Objectives</td>
</tr>
<tr>
<td>Practices</td>
<td>Policies</td>
</tr>
<tr>
<td>Ethos – Sense of Place</td>
<td>Formal Messaging</td>
</tr>
<tr>
<td>Behaviors</td>
<td>Activities</td>
</tr>
</tbody>
</table>

Source: MHS Consulting
Sell Side Process

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
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 to Quantify Interest in Opportunities

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

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<th>3</th>
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<th>1 or 0</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial Strength</strong></td>
<td>3x</td>
<td>Solid</td>
<td>Breakeven</td>
<td>Troubled</td>
<td></td>
</tr>
<tr>
<td>Score</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Quality of Care</strong></td>
<td>3x</td>
<td>High Level/5 Star</td>
<td>Mid Level</td>
<td>Troubled</td>
<td></td>
</tr>
<tr>
<td>Score</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Occupancy</strong></td>
<td>2x</td>
<td>&gt; 95% occupancy</td>
<td>83% - 94% occupancy</td>
<td>&lt; 82% occupancy</td>
<td></td>
</tr>
<tr>
<td>Score</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Their Board Willingness</strong></td>
<td>1x</td>
<td>Pro-active Engaged board</td>
<td>Luke-warm</td>
<td>'Hostile Take-over'</td>
<td></td>
</tr>
<tr>
<td>Score</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
# Matrix Example

## Matrix to Quantify Interest in Opportunities

<table>
<thead>
<tr>
<th></th>
<th>Weight</th>
<th>3: Ideal</th>
<th>2: Acceptable</th>
<th>1 or 0: Luke-warm</th>
<th>Score</th>
</tr>
</thead>
</table>
| **Timing - how does this fit with our current situation** | 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** | 2x     | $0                        | $0 Outlay - assumption of 'reasonable' amount of debt | Significant cash outlay upfront |!
| **Facility condition**   | 2x     | Well maintained           | Well maintained but some deferred maintenance | Significant deferred maintenance |!
| **Facility lay-out**      | 2x     | Very Good                 | Not ideal but marketable         | Need to change (ie semi-private rooms) |!
### Matrix to Quantify Interest in Opportunities

<table>
<thead>
<tr>
<th></th>
<th>Weight</th>
<th>3 Ideal</th>
<th>2 Acceptable</th>
<th>1 or 0 Luke-warm</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Staff</strong></td>
<td>1x</td>
<td>Solid and dedicated</td>
<td>Average</td>
<td>Average</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Score</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current ownership</strong></td>
<td>1x</td>
<td>Non-Profit</td>
<td>Private For Profit</td>
<td>County</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Score</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Faith/Sponsorship</strong></td>
<td>1x</td>
<td>Same as ours</td>
<td>'Compatible' Faith to ours</td>
<td>‘Incompatible’ faith to ours</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Score</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Ease to close</strong></td>
<td>1x</td>
<td>Same as ours</td>
<td>Reasonable</td>
<td>Tedious</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Score</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Matrix Example - Scoring

- Each factor is weighted
- Determine Minimum and Maximum total points available
  - Top Third: 53-78 points
  - Middle Third: 27-52 points
  - Bottom Third: 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

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

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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