

ZIEGLER INVESTMENT BANKING

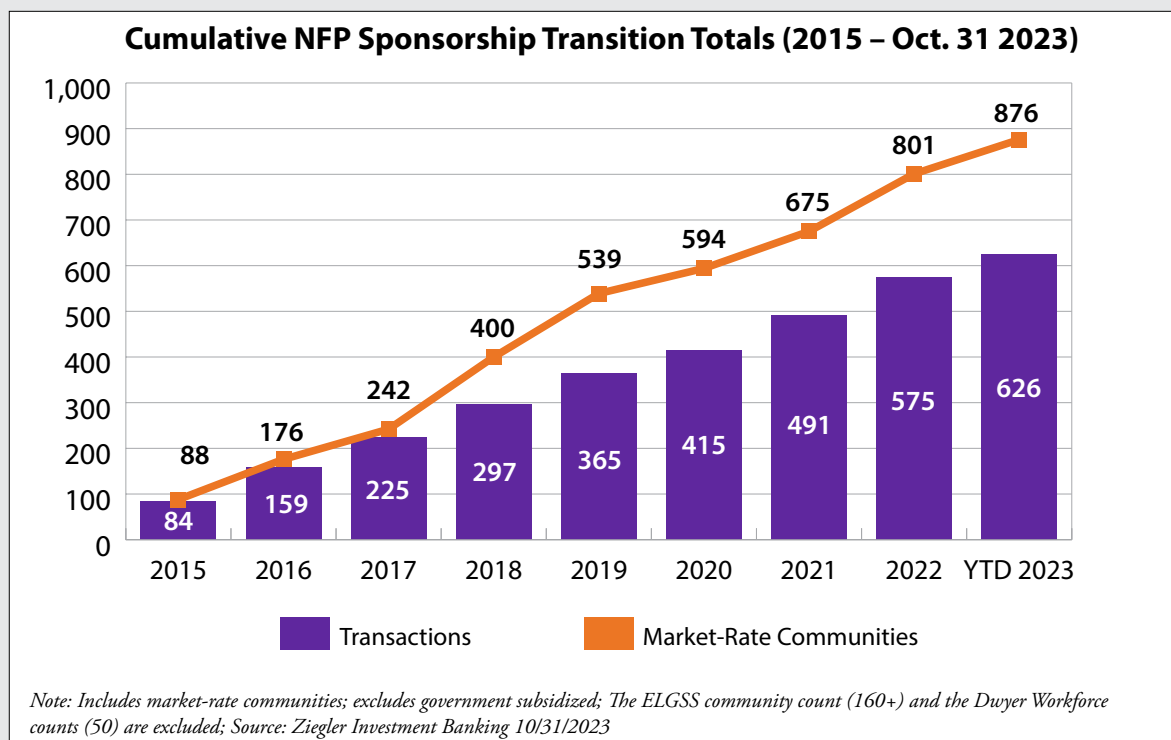
SENIOR LIVING FINANCE Z-NEWS

FEATURED ARTICLE

SENIOR LIVING M&A IN FOCUS: NOT-FOR-PROFIT SPONSORSHIP TRANSITION ACTIVITY: 2023 UPDATE

Since the pandemic, and now with the current state of the economy, senior living and care organizations are looking for ways to partner, to achieve greater scale, and utilize resources that will strengthen operations for future stability. For several years, Ziegler has been providing educational and consultative support to organizations exploring options, whether the path would be to grow through acquisitions or affiliations or assess the advantages of a potential sale and right-size its portfolio. Additionally, Ziegler has devoted significant resources to tracking these trends, particularly in the not-for-profit senior living and care sector. This issue of *Z-News* is intended to provide an update on the level of activity among not-for-profit providers and to uncover specific trends unfolding in recent years.

Since the year 2010, approximately 1,100 not-for-profit senior living communities have changed ownership and/or sponsorship. Looking back just since 2015, nearly 900 not-for-profit communities have gone through this transition reflecting the increasing view of affiliation as an important strategic option in an organization's toolkit for growth. The drivers of this consolidation trend vary depending on the size of the organization, the geographic location, and the community type (e.g., Life Plan Community vs. freestanding nursing home). The graph below details the annual number of transactions, with one transaction often resulting in more than one community change of sponsorship/ownership as in the case of multi-sites coming together.

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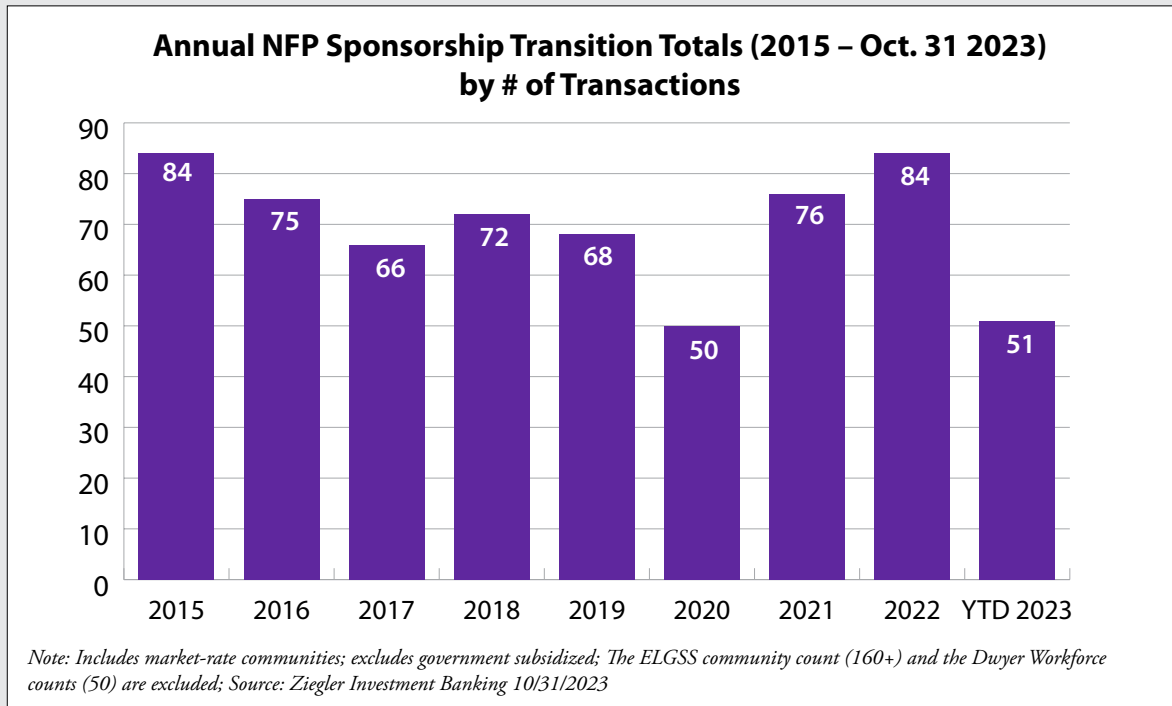
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The graph below provides insight into the activity over the past year-and-a-half, along with the last several years, going back to 2015. The past year-and-a-half saw record activity in the Not-for-Profit Senior Living Sector, fueled in part by the financial struggles related to the pandemic.



There are some definite patterns to note, some that are similar to what has been observed in recent years, but others that have emerged that are worthy of attention.

- **For-Profit Active Acquirers:** Since 2015, roughly 53% of the Not-for-Profit (NFP) Communities that have changed hands have been acquired by For-profit (FP) owners and operators. Most of these transactions have been in the form of freestanding NFP nursing homes and communities that are financially distressed to the point where it is too difficult for another NFP to come in and take over sponsorship and operations.
- **Increase in Closures:** Since the onset of the pandemic, the number of nursing home closures has been widely observed due in some cases to insufficient reimbursement to cover costs in an increasingly regulated environment. Ziegler data affirms this trend. Of all the NFP closures going back to 2010, roughly 70% have been nursing homes. Of the remaining 30%, these tend to be communities that have dated physical plants requiring substantial reinvestment, often in financial distress, and often in rural areas or highly competitive urban settings.
- **Increase in NFPs Acquiring:** Another trend that shows signs of proactive growth and organizational sophistication is acquiring a FP community by means of an asset purchase. We are observing more examples of this among organizations that have the resources to undertake such an acquisition and the ability, in many cases, to participate in a competitive bidding process with other NFPs and FP entities. In 2023, there was a record number of these types of transactions. This shows that many NFP organizations have financial capacity, are adding resources and doing the work at the board level to quickly respond to these situations when they arise.
- **Affiliation as a Strategy:** Do not mistake all affiliations as examples of organizations in financial distress. That is not the case. There have been several transactions whereby a community, or even a system, is financially strong enough to sustain without an affiliation or merger being a necessary action, but yet the benefits of greater scale and combined horsepower outweigh a “go it alone” approach for the future. We observe this in a number of cases whereby there is a retiring CEO and the board explores an affiliation as a form of succession planning rather than conducting a formal search for a new executive. These healthy organizations in transition are some of the more likely communities to seek an NFP affiliation partner, rather than be sold to the private sector.

Ziegler's Senior Living Mergers & Acquisitions ("M&A") team, which includes nineteen dedicated Sponsorship Transition and Senior Housing & Care professionals, is currently engaged on numerous NFP & FP affiliations, acquisitions, and disposition assignments located in all parts of the country. In addition, they facilitate strategy development through the completion of tailored market scans designed to identify and prioritize unique growth opportunities. Throughout the year, Ziegler will continue to publish original research, industry education and decision-support useful to both management teams and boards.

If you have questions related to senior living M&A or are looking for additional support related to any of the topics discussed above, please contact the Ziegler representative in your region or reach out to Stephen Johnson (sjohnson@ziegler.com), Sponsorship Transition Practice Head.

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NOT-FOR-PROFIT SENIOR LIVING RATINGS ACTIONS

AS OF NOVEMBER 14, 2023

ORGANIZATION	RATING AGENCY	RATING/ OUTLOOK	TYPE OF ACTION	DATE
John Knox Village (FL)	Fitch	BBB Stable	Affirmed Rating Affirmed IDR*	11/2/23
Meadowood Corporation (PA)	Fitch	BBB Stable	Affirmed Rating Affirmed IDR*	11/2/23
Springpoint Senior Living Obligated Group (NJ)	Fitch	BBB+ Stable	Affirmed Rating Affirmed IDR*	11/3/23
Waverly Heights (PA)	Fitch	A- Stable	Affirmed Rating Affirmed IDR*	11/6/23
Ashfield Active Living dba Aberdeen Heights (MO)	Fitch	BB- Negative	Affirmed Rating Affirmed IDR*	11/9/23
Brethren Home Community dba Cross Keys Village (PA)	S&P	A- Negative	Affirmed ICR** Revised Outlook	11/9/23
Sunnyside Presbyterian Home (VA)	Fitch	BBB+ Stable	Review – No Action	11/13/23
Lifespace Communities (IA)	Fitch	BBB Stable	Assigned Rating Affirmed Rating Affirmed IDR*	11/14/23

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* IDR – Issuer Default Rating

** ICR – Issuer Credit Rating

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INTEREST RATES/YIELDS

WEEK ENDING NOVEMBER 10, 2023

	CURRENT	LAST WEEK	52-WK AVG
30-Yr MMD	4.22%	4.45%	3.63%
Senior Living 30-Yr “A”	5.75%	6.05%	5.25%
Senior Living 30-Yr “BBB”	6.25%	6.55%	5.67%
Senior Living Unrated	7.20%	7.45%	6.49%
Senior Living New Campus	8.00%	8.25%	7.47%
SIFMA Muni Swap Index	3.13%	3.85%	3.19%

	CURRENT	WEEKLY AVERAGE	SPREAD TO MMD
ZSLMLB Index [†]	6.34%	6.36%	2.11%

[†] Ziegler Senior Living Municipal Long Bond Index

Source: Bloomberg BVALS

FEATURED FINANCING



ARARAT HOME
OF LOS ANGELES, INC.[®]
LIFE PLAN COMMUNITIES

ARARAT HOME OF LOS ANGELES
Los Angeles, California

California Municipal Finance Authority,
Insured Revenue Bonds, Series 2023

\$10,915,000
October, 2023

MARKET REVIEW

MONEY MARKET RATES

	11/10	Last week
Prime Rate	8.50	8.50
Federal Funds (weekly average)	5.31	5.31
90 Day T-Bills	5.42	5.43
30-Day Commercial Paper (taxable)	5.31	5.35
Libor (30-day)	5.43	5.43
SOFR	5.32	5.33
7 Day Tax-Exempt VRDB	3.13	3.85
Daily Rate Average	2.49	3.37

COMPARATIVE YIELDS

TAXABLE REVENUE

	GOVT	A		MMD	NR*	BB	BBB	A	AAA
2 Year	5.02	5.57	1 Year	3.42	5.67	5.32	4.47	3.72	3.52
5 Year	4.64	5.49	5 Year	3.12	5.47	5.12	4.32	3.62	3.27
7 Year	4.67	5.97	7 Year	3.15	5.60	5.25	4.45	3.70	3.35
10 Year	4.62	6.32	10 Year	3.20	5.85	5.40	4.60	3.85	3.45
30 Year	4.75	7.00	30 Year	4.22	7.12	6.62	5.87	5.12	4.67

(* Representative of institutional sales)

TAX-EXEMPT MARKET INDICATORS

	THIS WEEK	LAST WEEK	CHANGE
Bond Buyer			
20 Bond Index	3.93	4.17	-0.24
11 Bond Index	3.83	4.07	-0.24
Revenue Bond Index	4.21	4.45	-0.24
30 Year MMD	4.22	4.45	-0.23
Weekly Tax-Exempt Volume (Bil)	2.04	1.83	+0.21
30 Day T/E Visible Supply (Bil)	9.01	8.89	+0.12
30 year "A" Rated Hospitals as a % of 30 Year Treasuries	107.7	111.4	-3.70

Source: Bloomberg