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ZIEGLER INVESTMENT BANKING

FINANCIAL MARKET UPDATE AND UNIQUE OPPORTUNITIES FOR THE CHARTER SCHOOL SECTOR

December 14, 2023

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FACTORS IMPACTING TAX-EXEMPT INTEREST RATES

HEADLINES



July 26, 2023

Fed hikes interest rates to 22-year high as inflation fight resumes

THE BOND BUYER

Monday, October 23, 2023

Munis Take Breather Ahead of Smaller New-Issue Calendar



WED, OCT 25 2023 5:58 AM EDT

Economists fear major disruption if the Israel-Hamas conflict is not contained

October 25, 2023



TREASURIES-US yields climb after strong home sales data, soft five-year auction

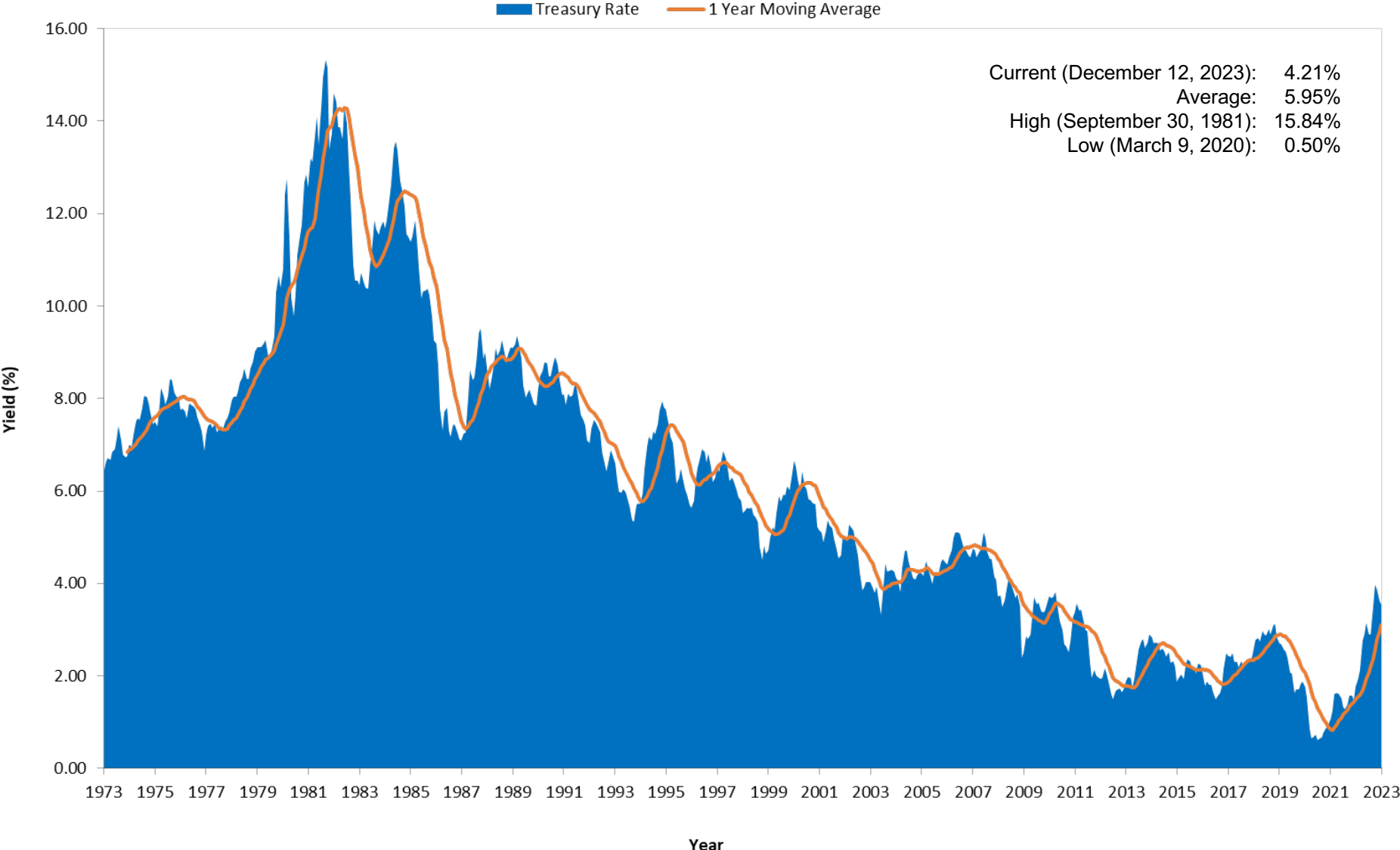


December 11, 2023

Inflation Expected to Stay Flat, Giving Fed Room to Cut Rates

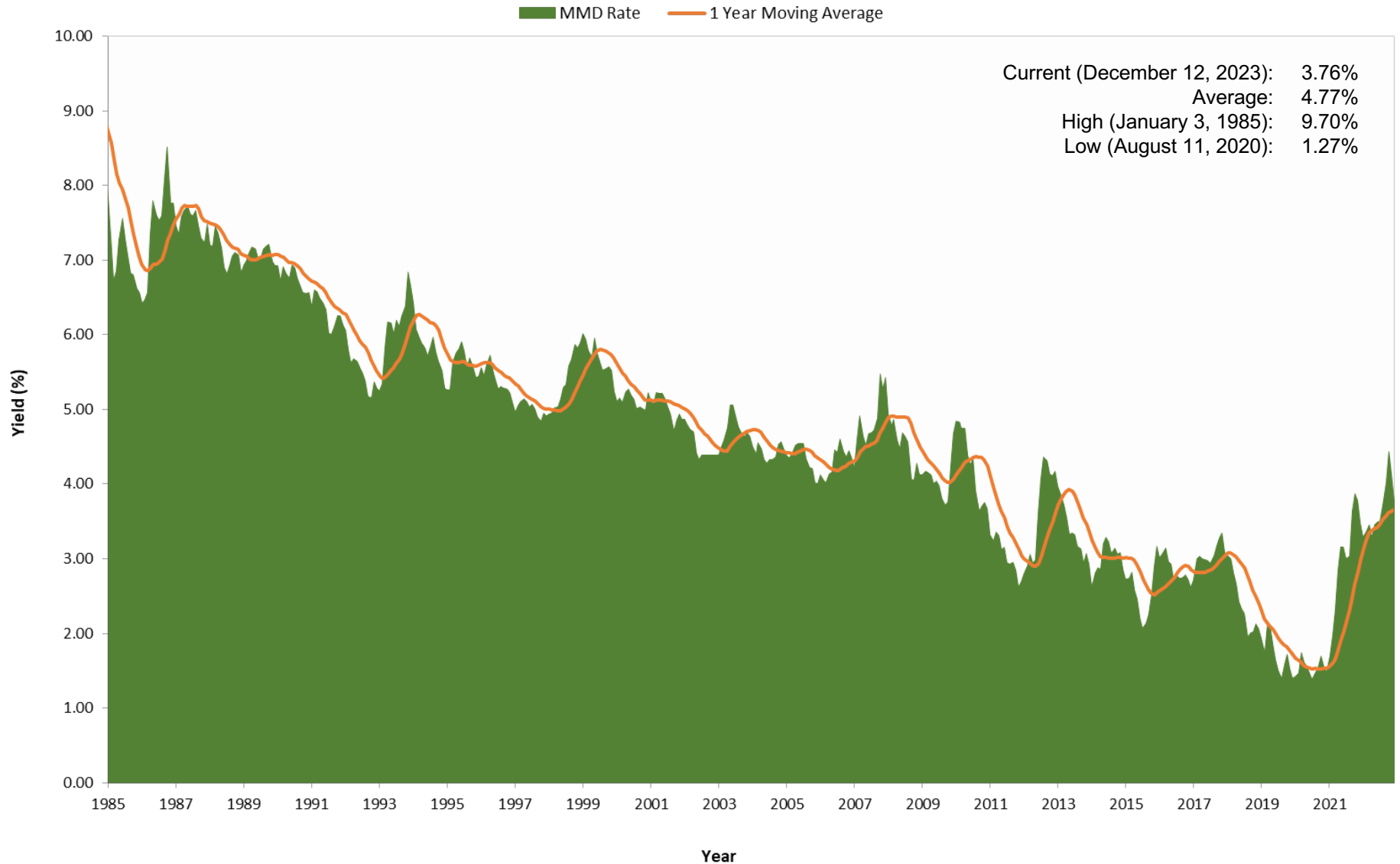
FIXED RATE BOND MARKET OVERVIEW

10-YEAR TREASURY (1973-2023)

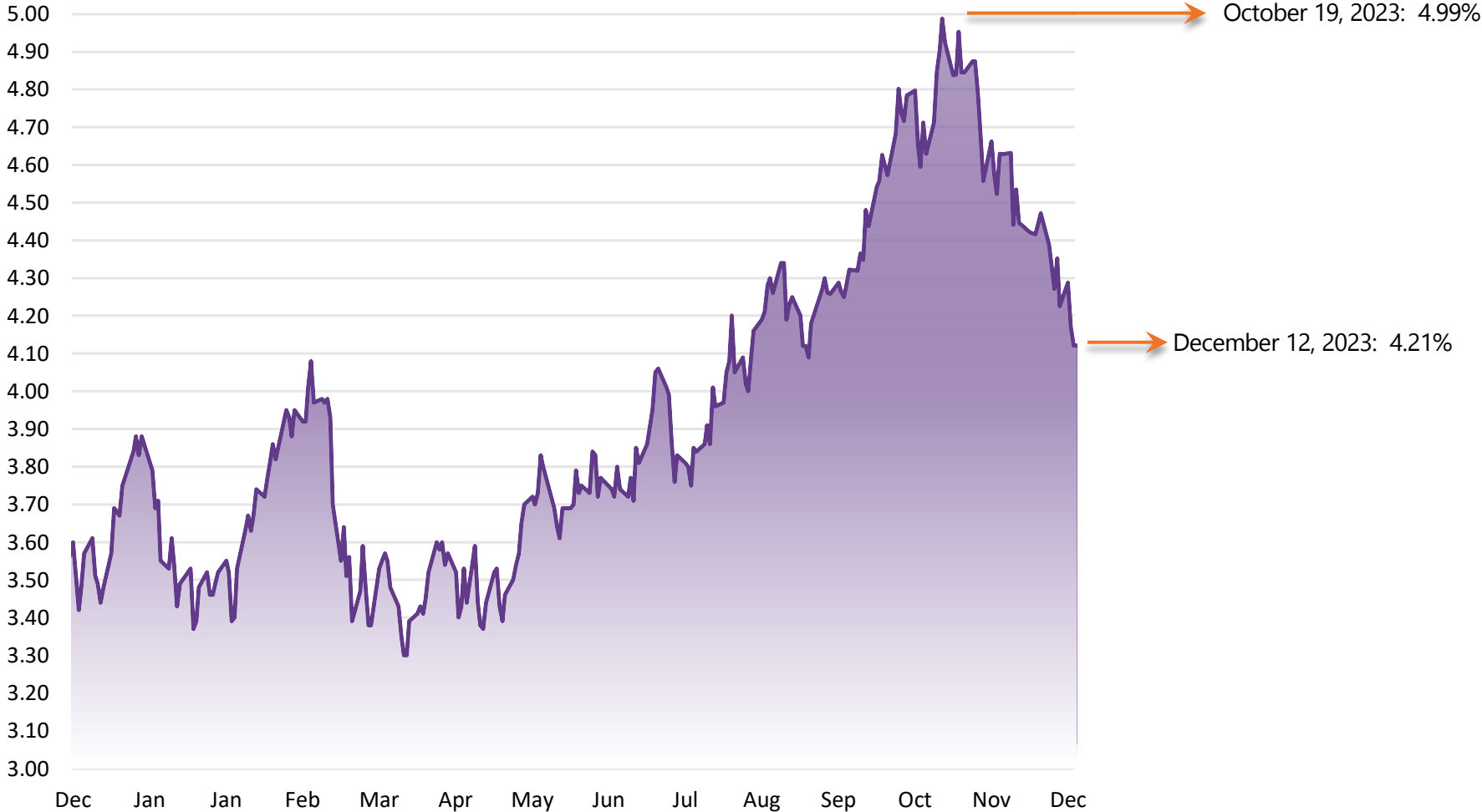


Source: LipperFM data service as of 12/14/23

30-YEAR MMD (1985-2023)



10-YEAR TREASURY (LAST 12 MONTHS)

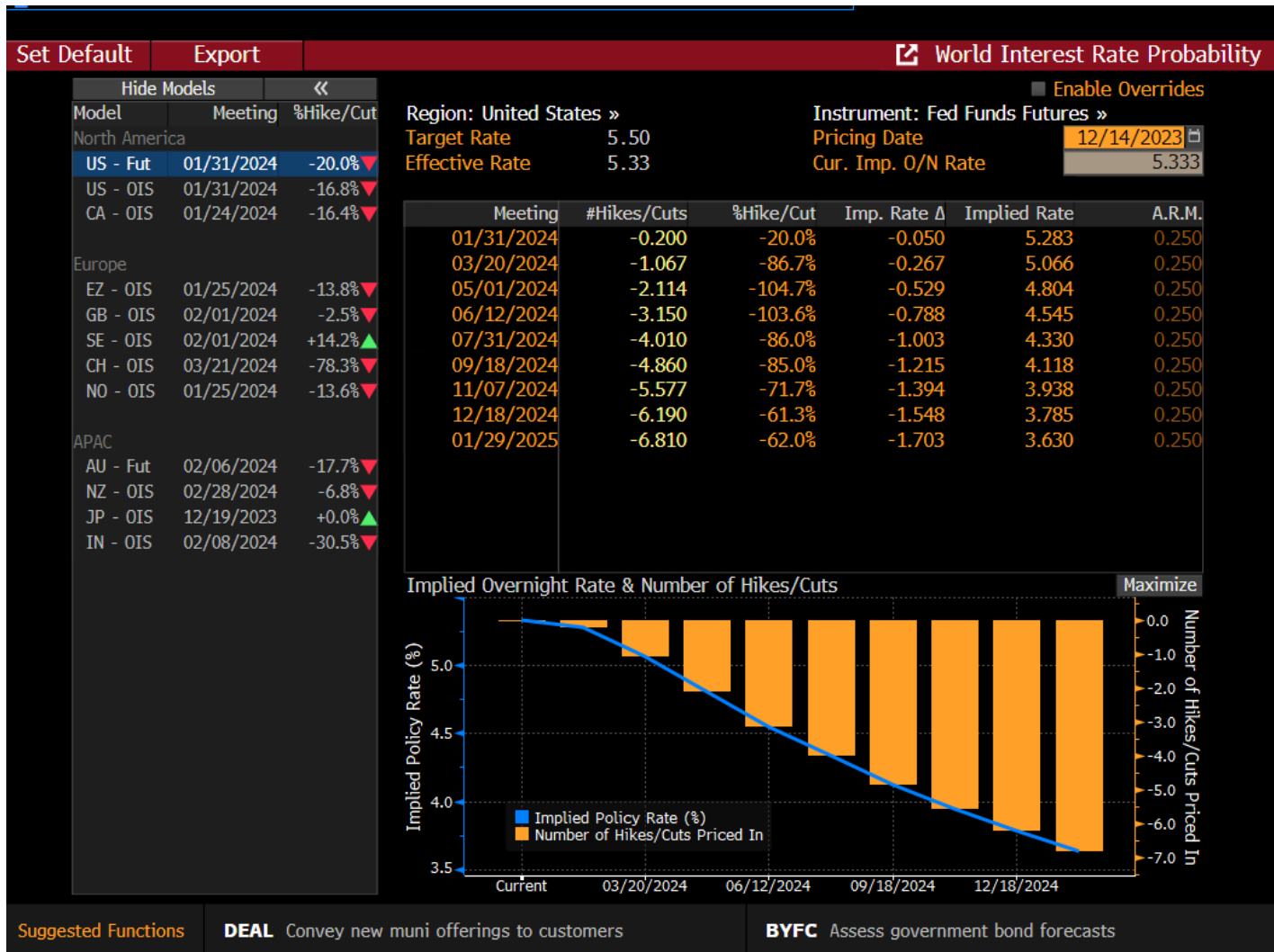


Source: Federal Reserve as of 12/14/2023

30-YEAR MMD (LAST 12 MONTHS)



INTEREST RATE PROBABILITY

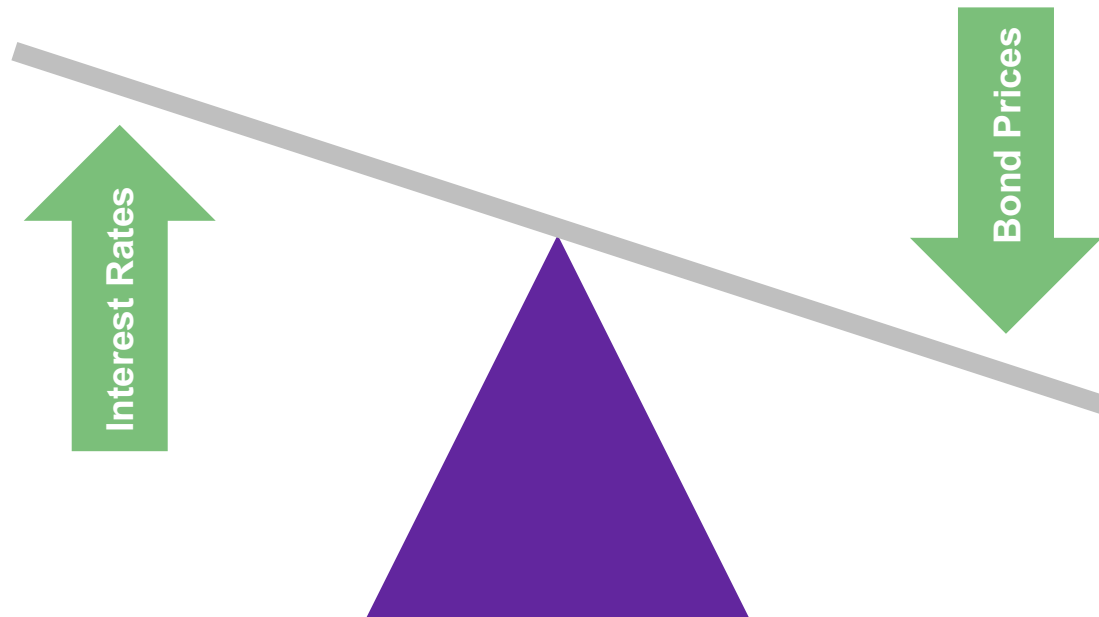


SECONDARY MARKET PURCHASE OPPORTUNITY

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OVERVIEW

- Based on current market conditions, bonds can potentially be purchased at a discount to current market levels as investors seek liquidity
- Lower bond prices are the result of higher interest rates and funds/investors needing liquidity to support increased outflows



SECONDARY MARKET PURCHASE OPPORTUNITY

REASONS TO PURCHASE BONDS

- What are some key reasons an organization should consider a secondary market purchase of their bonds?
 - Can buy bonds at discount to the current market, resulting in a higher rate of return relative to other similar investment opportunities
 - Can reduce amount of debt outstanding and annual debt service
 - If the interest expense “savings” are re-invested, organization can grow your cash/investment balance
 - Can achieve refunding savings by using another source of debt for the purchase
 - Structural considerations associated with existing capital structure (i.e. covenant changes, changes to debt service reserve fund, re-amortization of debt, etc.)

SECONDARY MARKET PURCHASE OPPORTUNITY

FACILITATING PURCHASE

- To facilitate secondary market purchase, an organization needs to:
 - Determine the discount/price it is comfortable paying and the amount it is willing to buy
 - Work with its investment advisor to create an account to hold bonds and have cash available to make purchase
 - Discuss opportunity with bond/corporate counsel and auditor to ensure compliance with any potential disclosure requirements
 - Reach out to Ziegler to discuss parameters around which an organization is willing to purchase their bonds

SECONDARY MARKET PURCHASE OPPORTUNITY

PRIMARY STRATEGIES FOR PURCHASED BONDS

- Hold the bonds as an investment (“Buy and Hold Strategy”), with the organization paying debt service to itself
 - The bonds would be treated as an unrestricted investment and thus would not reduce Days Cash on Hand at time of purchase
 - Like other fixed income investments, bonds would be valued going forward based upon market conditions, which could result in a gain on the sale if the market stabilizes, market liquidity improves and/or organization’s credit profile improves
- “Cancel” the bonds meaning it would be fully repaid and the debt service will no longer exist
 - Immediately reduces an organization’s outstanding debt and debt service requirements
 - Cancellation is a simple/quick process to accomplish with Bond Trustee
- Under either the “buy and hold” or “cancel” strategy, an organization could use an alternative debt source (i.e. bank loan) to preserve cash/investments while gain some of the benefits outlined above
 - Cost of alternative debt source would need to be equal to or less than current cost of debt to provide economic benefit
 - Important to consider impact of debt on future plans and debt capacity

SECONDARY MARKET PURCHASE OPPORTUNITY CANDIDATES

- Ideal candidates are bonds that have low coupon rates, longer-term final maturities and call dates at or beyond 2024
- Bond prices will vary and are subject to change on a daily basis
- Below is an example of potential purchase prices based upon prevailing market conditions as of November 1, 2023:

Maturity Date	Rating	Call Date	Coupon Rate	Market Price ⁽¹⁾
01/01/51	BBB	01/01/28	4.00%	70 – 72%
01/01/51	BBB	01/01/28	5.00%	85 – 87%

(1) For illustrative purposes only.

- Reach out to your Ziegler Banker for additional information on the secondary market purchase opportunity relative to your specific bonds

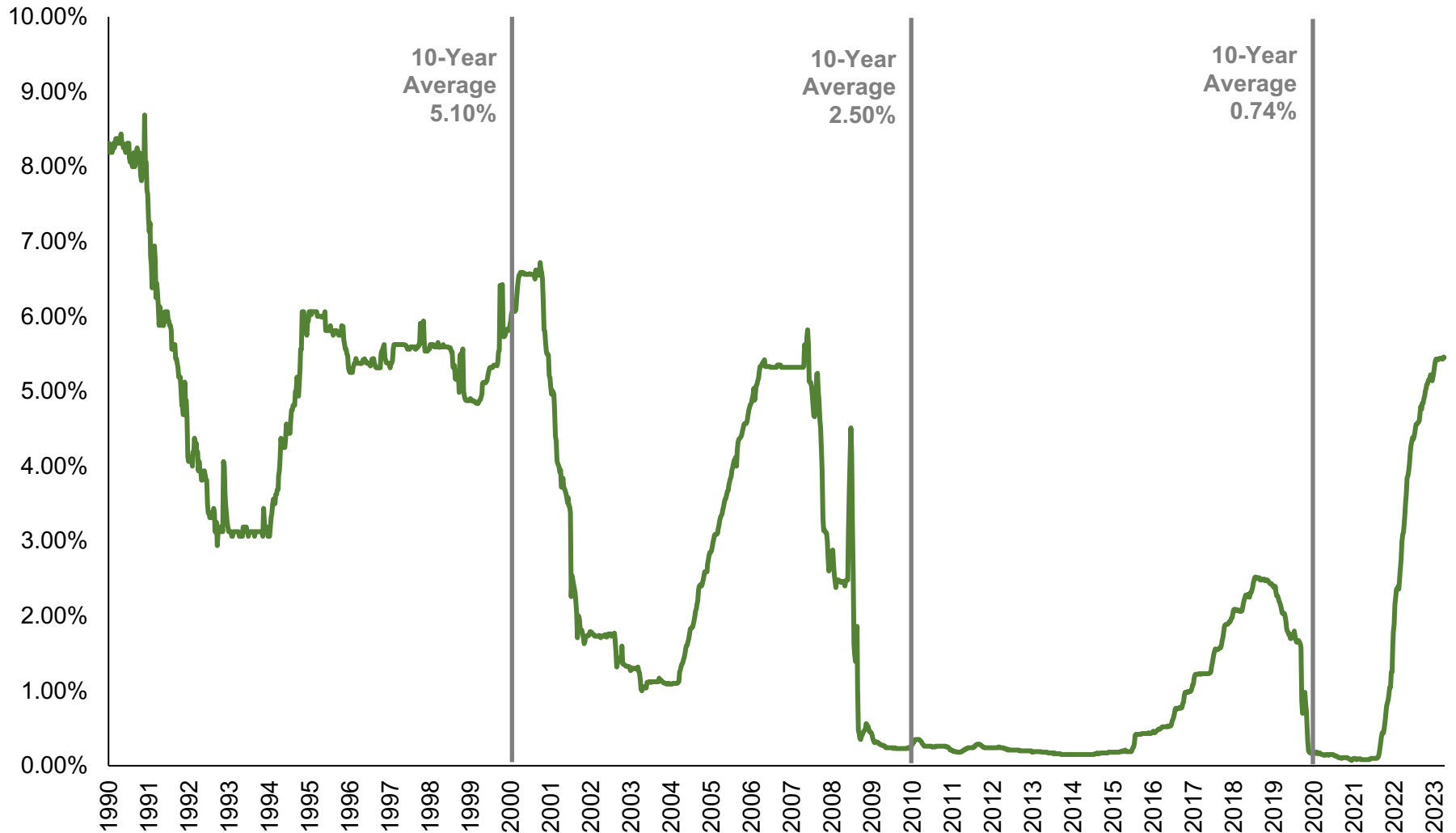
BANK MARKET UPDATE

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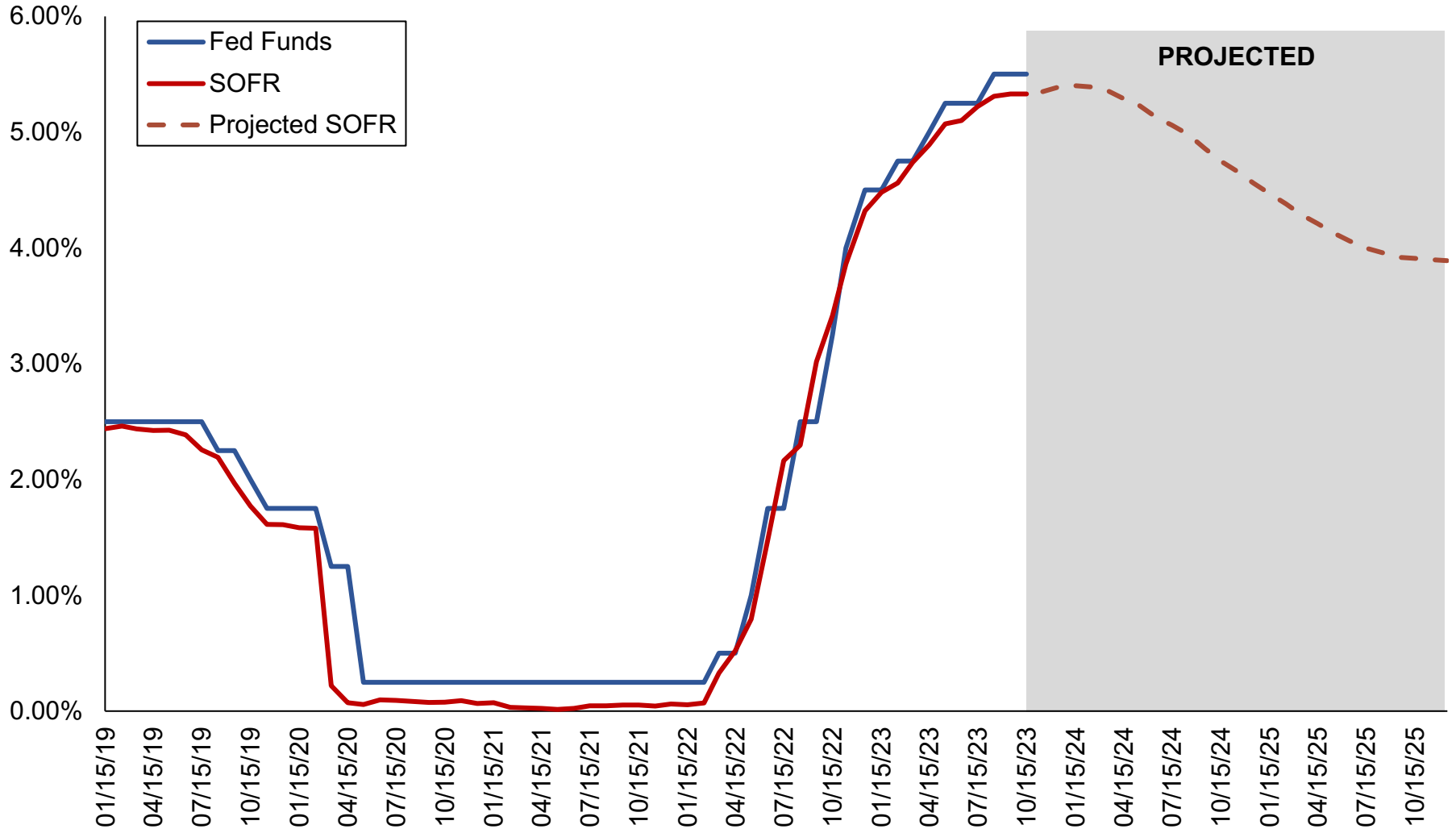
- Transition from LIBOR Index to SOFR Index is nearing completion
- In addition to significant short-term interest rate increases, the bank marketplace has changed dramatically over the past 18-months with many credit providers tightening their appetite for the charter school sector
- This has led to substantial changes in lending environment:
 - Increasing in credit spreads (amount banks charge in addition to index rate)
 - Shortening commitment periods
 - Proposing more restrictive financial covenants
 - Increasing deposit requirements
 - Tightening loan-to-value requirements
- Also challenging the bank market environment is project cost inflation which has led to many projects being too big for one bank while also stressing loan-to-value requirements

HISTORICAL SHORT-TERM INTEREST RATES

1-MONTH LIBOR SINCE 1990



WHERE WILL SHORT-TERM INTEREST RATES GO?



ABOUT ZIEGLER

- Ziegler is a privately-held investment bank, capital markets and proprietary investments firm
- A registered broker dealer with SIPC & FINRA
- Ziegler provides its clients with capital raising, strategic advisory services, equity & fixed-income trading and research
- Founded in 1902, Ziegler specializes in the healthcare, senior living and educational sectors as well as general municipal finance

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