

FEATURED ARTICLE

BEING IN THE 'READY POSITION' FOR AFFILIATION, ACQUISITION OPPORTUNITIES

Over the past several years, Ziegler has been active in providing advisory services to not-for-profit providers relating to sponsorship transitions, and also in tracking the data and trends related to affiliations, acquisitions and mergers. One of the more common conversations among providers relates to readiness for potential growth through affiliations and acquisitions. This is not only a conversation among those who have yet to grow through an affiliation or acquisition, but also among those more seasoned organizations who have grown in this capacity more than once. Priorities can shift over time and as board members and executives change, it is a best practice to periodically review the rationale for growth and associated criteria/parameters. Ziegler recently facilitated this very conversation among a group of the country's not-for-profit Chief Strategy/Business Development/Growth Officers. This issue of *Z-News* highlights some of the key takeaways from that conversation.

Key Readiness Elements

Each organization is obviously unique, but there are some common readiness elements for providers to consider if exploring growth through affiliations or acquisitions.

- **Agreement on the 'Why?':** You have to understand why you desire to grow through an affiliation, acquisition or a merger. That needs to be your north star. Assessing potential partners can be hard work and organizations will devote significant resources to the process. You need to have a solid answer to the 'Why?' before moving forward.
- **Establish Criteria:** One of the key conversations during the Strategy Officers meeting was around criteria for potential partners. It seems simple, but what was repeated many times among this group was the importance of fit. Cultural fit and mission alignment have to be foundational elements. If you try to excuse away red flags or ignore obvious concerns, it will only come back to hurt you. At the end of the day, the non-negotiable criteria often tend to be big-picture items. Outside of that, there are often many nice-to-have criteria, but they

may not necessarily be deal-breakers. Additional common criteria may be related to geography, faith-based orientation, or financial strength.

- **Know When to Walk Away:** This is related to knowing your criteria, but is worth calling out individually. Do not be so desperate to grow that you are willing to take any opportunity that falls on your doorstep. The leaders of Ziegler's Sponsorship Transition practice have often quoted the lyrics of the Kenny Rogers song, *The Gambler*. "You got to know when to hold 'em, know when to fold 'em, know when to walk away and know when to run." You can spend a lot of time on communities that may not be a fit. You want to spend your limited time and resources on viable opportunities.
- **Know Your Team:** This element comes back to devoting resources. An affiliation or acquisition indeed impacts many individuals in an organization, but the up-front work of vetting for fit and exploring these options takes considerable time. Who is that lead in your organization? The emergence of the Chief Strategy/Business Development role is an example of devoting resources to this type of growth. It should also be mentioned that sometimes the team to vet opportunities includes external partners. This can be legal counsel, finance partners like a Ziegler representative or accounting firms you work with.
- **Having the Right Organizational Structure:** You need to know how your current structure can help or hinder growth plans. Where will a new affiliate formally sit within your organizational structure? The majority of the conversations on this topic during the Strategy Officers call related to risk management and making sure the new affiliate can stand on its own. This doesn't necessarily mean there is no financial support from the parent, but the structure needs to ensure the health and integrity of the mothership. Often a newly affiliated or acquired community will sit outside of an obligated group for a period of time until greater stability is achieved.

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CAPITAL :: INVESTMENTS :: ADVICE

- **Advanced Capital Planning:** If the growth opportunity is an acquisition with a cash transaction, you need to know in advance where that cash will come from. Does your organization have a line of credit? Is there a strategic growth fund at that parent that can provide dollars to acquire other communities? It is also worth mentioning here that valuations are important. Having institutional knowledge on valuations, or a partner to turn to, is helpful. It's also important to have the discipline to know where you will draw the line in the sand with a purchase price.
- **Commitment to the Long-Game:** This is relationship management. Particularly in the not-for-profit sector, these opportunities do not just pop-up overnight. The fire-sales are more common when dealing with distressed communities, but when exploring not-for-profit to not-for-profit sponsorship transitions, these often take many years of fostering relationships. When the time is right, that organization will likely look to known, trusted partners that they have connections with. Conversely, it is important to note that when there are acquisition opportunities with multiple bidders at the table, time is not your friend. You need to be able to move quickly to win those situations.

Organizations need to also have a transition strategy for when affiliations or acquisitions close. An in-depth conversation on that topic is for another issue of *Z-News*, but it is worth noting as a part of the readiness conversation.

In closing, more and more organizations are looking to be prepared for when opportunities arise. You will not have the luxury of reinventing the wheel for every situation or calling special board meetings every other week to understand expectations. Ziegler recommends that organizations have the conversation at the board level and put the resulting strategies in writing to ensure clarity and follow-through.

If readers have any specific questions about this topic or if Ziegler can assist in navigating these discussions, please reach out to the Ziegler representative in your region to learn more. Additionally, Ziegler has a practice devoted solely to sponsorship transitions, affiliations, acquisitions and dispositions. Specific questions regarding those support services can be directed to Stephen Johnson, Managing Director, sjohnson@ziegler.com.

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NOT-FOR-PROFIT SENIOR LIVING RATINGS ACTIONS

AS OF DECEMBER 12, 2022

ORGANIZATION	RATING AGENCY	RATING/ OUTLOOK	TYPE OF ACTION	DATE
No rating actions to report				

INTEREST RATES/YIELDS

WEEK ENDING DECEMBER 9, 2022

	CURRENT	LAST WEEK	52-WK AVG
30-Yr MMD	3.46%	3.48%	2.89%
Senior Living 30-Yr "A"	5.05%	5.00%	4.20%
Senior Living 30-Yr "BBB"	5.50%	5.50%	4.57%
Senior Living Unrated	6.25%	6.24%	5.33%
Senior Living New Campus	7.15%	7.15%	6.29%
SIFMA Muni Swap Index	2.21%	1.85%	1.02%
	CURRENT	WEEKLY AVERAGE	SPREAD TO MMD
ZSLMLB Index [†]	5.48%	5.47%	2.01%

[†] Ziegler Senior Living Municipal Long Bond Index
Source: Bloomberg BVALS

FEATURED FINANCINGS



MASONIC HOMES OF KENTUCKY
Louisville, Kentucky

Taxable Term Loan Refunding

\$21,604,000

November, 2022



HORIZON HOUSE
Seattle, Washington

Line of Credit New Money

\$40,000,000

December, 2022



ROCKWOOD
Spokane, Washington

Cinderella Bonds Refunding

\$69,748,000

December, 2022



FRANKE TOBEY JONES
Enjoy your age

FRANKE TOBEY JONES
Tacoma, Washington

Line of Credit Refunding

\$25,138,000

December, 2022



TWIN LAKES
Burlington, North Carolina

Bank Direct Purchase New Money

\$58,100,000

December, 2022

MARKET REVIEW

MONEY MARKET RATES

	12/9	Last week
Prime Rate	7.00	7.00
Federal Funds (weekly average)	3.82	3.82
90 Day T-Bills	4.18	4.18
30-Day Commercial Paper (taxable)	4.12	4.07
Libor (30-day)	4.27	4.17
SOFR	3.80	3.81
7 Day Tax-Exempt VRDB	2.21	1.85
Daily Rate Average	2.63	1.12

COMPARATIVE YIELDS

TAXABLE REVENUE									
	GOVT	A		MMD	NR*	BB	BBB	A	AAA
2 Year	4.31	5.41	1 Year	2.39	4.59	4.24	3.54	2.79	2.47
5 Year	3.70	5.05	5 Year	2.47	4.77	4.42	3.72	2.97	2.62
7 Year	3.62	5.12	7 Year	2.49	4.89	4.59	3.89	3.09	2.74
10 Year	3.48	5.33	10 Year	2.53	5.03	4.73	4.13	3.18	2.83
30 Year	3.43	5.83	30 Year	3.46	6.21	5.86	5.31	4.46	3.96

(* Representative of institutional sales)

TAX-EXEMPT MARKET INDICATORS

Bond Buyer	THIS WEEK	LAST WEEK	CHANGE
20 Bond Index	3.63	3.65	-0.02
11 Bond Index	3.53	3.55	-0.02
Revenue Bond Index	3.91	3.93	-0.02
30 Year MMD	3.46	3.48	-0.02
Weekly Tax-Exempt Volume (Bil)	4.28	2.86	+1.42
30 Day T/E Visible Supply (Bil)	6.44	7.99	-1.55
30 year "A" Rated Hospitals as a % of 30 Year Treasuries	130.0	124.4	+5.60

Source: Bloomberg