

# ZIEGLER INVESTMENT BANKING

## SENIOR LIVING FINANCE Z-NEWS

### MARKET COMMENTARY

## FROM A CAPITAL MARKETS PERSPECTIVE

Equities bounced back from the prior week's losses, putting all of the major indexes back to positive for year to date. As has been the trend, the technology-heavy Nasdaq Composite Index outperformed and managed to set a new high late in the week. Fueled by information technology and business services, the small-cap Russell 2000 Index also had a positive week.

Market professionals had to contend with a number of events during the week. On Friday, following the release of the Labor Department's carefully scrutinized employment survey, the economic data appeared to provide investor optimism as stocks recorded their best day of the week. The report detailed that companies had added more jobs than expected last month.

The strong jobs report initiated a spike in longer-term bond yields, which ended higher on the week. The investment-grade corporate bond market was focused on a highly anticipated new issuance from CVS Health to fund its purchase of Aetna. The \$40 billion issuance was the third-largest investment-grade corporate bond deal in history. Largely, the bonds received solid interest in both the primary and secondary markets. Municipal bonds kept pace with Treasuries, with light issuance in the primary market balanced by greater trading volume in the secondary market, particularly in higher-grade municipals. Long-term municipal tax-exempt bond funds saw an inflow of \$112 million on the week. This followed an inflow of \$481 million into the tax-exempt mutual funds the prior week.

ADAM J. BUCHANAN  
SENIOR VICE PRESIDENT

*See pages 4-5 for current market rates*

*Market and other data within this report derived from Bloomberg and other sources deemed to be reliable.*

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CAPITAL :: INVESTMENTS :: ADVICE

## FEATURED ARTICLE

## STRATEGIC PLANNING IN 2018: RULES FOR ENGAGEMENT

We know that this time of the year is a popular time for board retreats and leadership team meetings. We felt it was appropriate to spend some time talking about what strategic planning looks like in 2018. What should boards and leadership teams consider as they approach their retreats or strategic planning efforts? What has changed from previous approaches? Hopefully this article can serve as a reminder of the important elements for a successful strategic planning exercise and will set the stage for what today's Strategic Planning 'Rules of Engagement' look like.

### **Make the Commitment to Education**

A December 2015 *Ziegler CFO Hotline*<sup>SM</sup> poll showed that roughly 35% of organizations have board retreats annually and another 35% every 2-3 years. Ziegler is a strong proponent of carving out specific time during the calendar year to set aside standard board agendas, budget discussions, and routine governance responsibilities and focus on the big picture. One of the greatest responsibilities of the board is to see the big picture and to do that, board members and leadership team members need to be informed and educated. Board education is paramount to an organization's success. When we run across organizations who are floundering, they often have uninformed board members. They don't know what they don't know. There are often intelligent, caring people around the table, but at times, unaware of all of the influencers impacting the health of the organization. So, tip #1 is make the commitment. Schedule an annual board retreat if it's been many years since the last one. Commit to educating the board, not just during this retreat time, but regularly throughout the year. It will not only pay off with having smarter leadership, but it will ultimately foster a much more engaged board.

### **The Value of Varied Stakeholder Input**

Each stakeholder group that is connected to the organization will have a different perspective on the current state of the organization and potentially what direction it should head in. This includes staff, residents, board members, leadership team members, referral sources and other external partners. This diversity in perspective, when captured correctly, is a valuable tool for planning. It is important not only to gather feedback in a systematic way from these various groups, but it is important from an inclusiveness standpoint. If various groups within your organization feel like the planning was a top-down mandate with little input from others, buy-in will be challenged. You can gather feedback from these groups via methods such as town-hall meetings, focus groups, surveys, etc.

It also goes without saying that involving key external partners in the execution of the strategic planning can provide additional benefits. Industry experts can be a big component of board education, whether it be education about regulatory changes, the newest in senior housing design, workforce trends or the latest technological innovations. Using these partners as your eyes and ears to the external world is a smart approach to take.

### **Don't Bite off More Than You Can Chew**

Some of the most ambitious plans are doomed for failure from the get-go because of unrealistic expectations around timing and resources. Being disciplined in your approach is so very important. When identifying key priorities for the next 3 to 5 years (common timeframes for strategic plans), it is critical to identify what resources will be needed to effectively achieve that priority. For example, what will be needed financially to make it happen? What resources, including time on the part of the leadership team, will be required? What else do we have going on that will be competing for our time? We are supportive of stretch goals and plans that push the organization to do better, but the number of strategic priorities need to be a manageable number. It is also important to balance goals that will be more easily attainable in the short-term (easy wins) with those that will require a more long-term investment (and patience!).

### **Accountability**

This seems obvious, right? There is the old saying about not letting plans collect dust on the shelf. It is true that we need to avoid the dust accumulation on our strategic plans, but it needs to go deeper than that. I think all of us would agree that the best strategic plans need to be an active leadership tool, which is the easier part to gain agreement on. Where organizations fall short at times is in taking a disciplined approach to monitoring success with the plan along the way. It is important to put mechanisms in place for routine monitoring. This may take the form of a dashboard with quarterly updates as board meetings. It could also mean one level of granularity at the leadership team and another, more big-picture level of reporting for the board. Whatever form it takes, it is important for it to be simple, yet clearly connected to the overall priorities that everyone agreed on.

Additionally, it is important to ensure the plan remains relevant. If things have changed that make a certain priority no longer relevant, there is no need to keep it or the plan. If it no longer makes sense...drop it! That is not full permission to easily drop priority areas, but acknowledges that market conditions, regulatory changes, or other operational shifts can render a particular focus area irrelevant.

### **Alignment with Mission & Vision**

The final suggestion is to ensure that the strategic priorities align with the stated mission and vision. It is probably unlikely to go through a strategic planning process where the mission and vision statement are not discussed. At a minimum, they should be affirmed and the board and leadership need to make sure that the strategic plan, mission statement and vision statement, are all moving in the same direction. If they are not, then perhaps there needs to be another look at those statements. It is not necessarily recommended that an organization retools its mission and vision statement every three years, but if there are significant disconnects, those cannot be ignored.

The list of suggestions on how to successfully approach strategic planning goes well beyond the above. We feel the key tips outlined above, however, will position you for greater success and point you in the right direction. If Ziegler can be of any assistance with your strategic planning efforts, please don't hesitate to contact the Ziegler banker in your region. Over the past few years, Ziegler has presented between 45-50 board and leadership strategy sessions annually. We would be glad to support your organization in that same way.

LISA McCRACKEN  
DIRECTOR, SENIOR LIVING RESEARCH & DEVELOPMENT  
ZIEGLER

**NOT-FOR-PROFIT SENIOR LIVING RATINGS ACTIONS**

MARCH 8 - 12, 2018

ORGANIZATION	RATING AGENCY	RATING/ OUTLOOK	TYPE OF ACTION	DATE
The Highlands at Wyomissing (PA)	Fitch	BBB Stable	Assigned Rating Affirmed Rating	3/12/18

*This ratings table represents review of the reports released by Fitch Ratings, Standard & Poor's, and Moody's Investors Service and has been compiled by Ziegler Investment Banking.*

**IN YOUR CORNER**
**LEADINGAGE PEAK LEADERSHIP SUMMIT**

Marriott Wardman Park Hotel  
Washington, D.C.  
March 18-21, 2018

*Ziegler Participants: Amy Castleberry & Keith Robertson*  
Tuesday, March 20 | 8:00 - 9:30 am  
Session: 16-D: CFO Forum

*Ziegler Participant: Dan Hermann*  
Tuesday, March 20 | 8:00 - 9:30 am  
Session: 15-D: Technology Forum

*Ziegler Participant: Tom Meyers*  
Tuesday, March 20 | 10:00 - 11:30 am  
Session: 17-E: Panel of Pundits: New Partnership Opportunities

**INTEREST RATES**

FOR THE WEEK ENDING MARCH 9, 2018

	CURRENT	LAST WEEK	52-WK AVG
30-Yr MMD	3.05%	3.02%	2.82%
Senior Living 30-Yr "A"	3.85%	3.82%	3.74%
Senior Living 30-Yr "BBB"	4.15%	4.12%	4.13%
Senior Living Unrated	4.85%	4.82%	4.77%
Senior Living New Campus	6.50%	6.50%	6.62%
SIFMA Muni Swap Index	1.13%	1.09%	0.94%

*Source: Ziegler Capital Markets*

**FEATURED FINANCING**

**JOHN KNOX VILLAGE**  
 Lee's Summit, Missouri

The Industrial Development  
Authority of the City of Lee's  
Summit, Missouri  
Senior Living Facilities Revenue  
Bonds, Series 2018A

**\$52,565,000**

## MARKET REVIEW

**MONEY MARKET RATES**

	3/9/18	1 WEEK AGO	1 MONTH AGO	1 YEAR AGO
Prime Rate	4.50	4.50	4.50	3.75
Federal Funds (weekly average)	1.41	1.38	1.41	0.66
90 Day T-Bills	1.66	1.63	1.55	0.72
30-Day Commercial Paper (taxable)	1.75	1.65	1.50	0.79
Libor (30-day)	1.71	1.67	1.57	0.85
7 Day Tax-Exempt VRDB	1.13	1.09	0.98	0.62
Daily Rate Average	1.08	1.20	0.89	0.57

**COMPARATIVE YIELDS**
**TAXABLE REVENUE**

	GOVT	NR*	A		MMD	NR**	NR*	BB	BBB	A	AAA
1 Year	2.04	2.00	2.52	1 Year	1.42	2.67	2.64	2.57	2.17	1.87	1.67
5 Year	2.65	4.00	3.55	5 Year	1.96	3.36	3.60	3.21	2.91	2.61	2.36
7 Year	2.81	4.75	3.96	7 Year	2.17	3.82	3.88	3.57	3.27	2.97	2.67
10 Year	2.89	5.00	4.24	10 Year	2.47	4.27	4.36	3.97	3.57	3.27	2.97
30 Year	3.15	6.25	4.76	30 Year	3.05	4.85	4.96	4.55	4.15	3.85	3.55
				5 year ADJ RATE			4.25				

(\* Representative of recent non-rated issues underwritten by Ziegler retail sales); (\*\* Representative of institutional sales.)

**TAX-EXEMPT MARKET INDICATORS**

	THIS WEEK	LAST WEEK	CHANGE	2018 HIGH	LOW
Bond Buyer					
20 Bond Index	3.88	3.85	+03	3.88	3.44
11 Bond Index	3.38	3.35	+03	3.38	2.94
Revenue Bond Index	4.37	4.34	+03	4.46	2.92
30 Year MMD	3.05	3.02	+03	3.05	2.56
Weekly Tax-Exempt Volume (Bil)	5.12	3.12	+2.00	5.56	0.71
30 Day T/E Visible Supply (Bil)	4.75	5.48	-.73	7.16	4.00
30 year "A" Rated Hospitals as a % of 30 Year Treasuries	122.22	120.50	+1.72	124.02%	120.43%

## INTEREST RATE COMPARISON

DATE	7-DAY T/E VRDB	PRIME RATE	FED FUNDS WEEKLY AVG.	13-WEEK T-BILL RATE	C.P.RATE TAXABLE	LIBOR (30-DAY)	30-YEAR T/E BONDS (A-AAA)		
03/09/18	1.13	4.50	1.41	1.66	1.75	1.71	3.85	-	3.55
03/02/18	1.09	4.50	1.38	1.63	1.65	1.67	3.82	-	3.52
02/23/18	1.09	4.50	1.41	1.64	1.57	1.62	3.85	-	3.55
02/16/18	1.00	4.50	1.41	1.59	1.55	1.58	3.83	-	3.53
02/09/18	0.98	4.50	1.41	1.55	1.50	1.57	3.77	-	3.47
02/02/18	1.08	4.50	1.39	1.48	1.49	1.57	3.73	-	3.43
01/26/18	1.16	4.50	1.41	1.42	1.50	1.56	3.58	-	3.28
01/19/18	1.23	4.50	1.41	1.42	1.51	1.55	3.51	-	3.21
01/12/18	1.31	4.50	1.41	1.41	1.51	1.55	3.51	-	3.21
01/05/18	1.47	4.50	1.41	1.40	1.50	1.55	3.36	-	3.06
12/29/17	1.71	4.50	1.38	1.35	1.49	1.56	3.35	-	3.05
12/22/17	1.40	4.50	1.41	1.34	1.65	1.53	3.50	-	3.20
12/01/17	0.97	4.25	1.13	1.26	1.18	1.37	3.59	-	3.29
11/03/17	0.92	4.25	1.14	1.17	1.13	1.24	3.65	-	3.30
10/06/17	0.92	4.25	1.16	1.04	1.10	1.23	3.73	-	3.43
09/01/17	0.79	4.25	1.14	0.99	1.11	1.23	3.60	-	3.30
08/04/17	0.79	4.25	1.14	1.07	1.12	1.23	3.61	-	3.31
07/07/17	0.86	4.25	1.16	1.03	1.08	1.22	3.82	-	3.42
06/02/17	0.76	4.00	0.89	0.95	0.86	1.08	3.75	-	3.35
05/05/17	0.85	4.00	0.91	0.88	0.83	0.99	4.08	-	3.63
04/07/17	0.88	4.00	0.90	0.81	0.86	0.98	4.09	-	3.59
03/03/17	0.62	3.75	0.64	0.69	0.65	0.83	4.26	-	3.76

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