

ZIEGLER INVESTMENT BANKING

SENIOR LIVING FINANCE Z-NEWS

FEATURED ARTICLE

HOW BIG IS BIG ENOUGH?

One of the most common questions we get at Ziegler, among those who are looking to reach particular milestones of growth is “How big is big enough?” That question often relates to how large does a particular organization need to be to reach a particular level of scale, to be able to hire certain specialty positions (e.g., Chief Strategy Officer, Chief Information Officer), or to be large enough to attract high-level talent and still provide a career ladder for growth. The answers to these questions are not simple, but there is some information that can help further clarify meaningful thresholds for not-for-profit senior living organizations.

It is first important to acknowledge that this is not necessarily about the number of communities or total units one has, or even the number of staff and residents. For example, the soon-to-be-released LeadingAge Ziegler 200 publication will rank the largest not-for-profit providers by their total number of market rate units. This ranking yields valuable data and substantiates many of the growth trends being reported throughout the sector. However, it does not fully represent size with respect to non-housing related services. For that reason, a few years ago, we started to gather information on alternative service lines, as well as overall revenue. As we know, there are even some single-site providers who have a larger revenue base than some of the smaller multi-site organizations. For purposes of the “How big is big enough” question, a conversation of size and scale across a revenue base is important.

The table below captures the revenue breakdown among the 2018 LeadingAge Ziegler 200. Roughly 14% of the largest not-for-profit senior living providers are above \$200 million in annual revenue. This is largely reflective of the largest 25 providers, but also includes a few organizations that have a substantial revenue source outside of market-rate seniors housing (e.g., home and community-based services; affordable housing properties). It should be acknowledged that not all of this revenue is driven by services to older adults. There are a number of not-for-profits who also provide a variety of social services and those numbers are not always teased out in this reporting.

ANNUAL REVENUE	NUMBER OF LZ 200 ORGANIZATIONS	% OF TOTAL LZ 200	AVERAGE LZ 200 RANK
>= \$200 million	23	13.7%	17
\$100-\$199 million	29	17.3%	46
\$50-\$99 million	60	35.7%	99
\$25-\$49 million	53	31.5%	148
<\$25 million	3	1.8%	188

Source: Preliminary 2018 LeadingAge Ziegler 200
Reflects 168 of the largest 200 providers

As was noted, there are some single-site providers who, despite a fewer number of communities, can often have annual revenues that are quite substantial. When looking at the largest 25 not-for-profit single-site

communities, the average revenue is roughly \$70 million. That is above roughly one-third of the largest 200 multi-site providers. While some of these single-site organizations have revenue from non-housing service lines, the majority of these organizations are large-scale Life Plan Communities with an average of roughly 800 units on one campus. These organizations elected to continue to build out their existing community with expansions and campus repositionings over the years rather than expand to additional sites.

Ziegler has utilized a few revenue markers as thresholds where meaningful differences are observed. One in particular relates to those organizations who reach at least \$100 million in annual revenue. At that level, it has been observed that there is a higher likelihood of having the ability to hire certain specialty positions, such as a Chief Clinical Officer or in-house legal counsel. The upcoming 2018 LeadingAge Ziegler 200 report will detail the most commonly added specialty positions last year. At this threshold, there are also greater benefits associated with scale for items such as purchasing and the ability to access capital among others. Clearly the higher up the revenue scale you go, the greater some of those differences. The \$200 million and \$300 million and higher groups also reveal different levels of scale and in-house expertise.

It is important to note that revenue alone does not make for a financially healthy organization. We cannot ignore financial performance. The organizations with higher revenue also generally have higher expenses. Therefore, the need to maintain healthy financial ratios remains paramount.

Ziegler will continue to work to dig deeper into the conversation around size and scale. We recognize that every organization and market is different, so keep in mind that the figures reported in this edition of *Z-News* are merely ranges that can aid in planning and setting goals for future revenue targets. The important point is that as not-for-profit providers in increasingly complex and competitive environments, we must keep moving forward. We cannot be stagnant; growth and evolution is an important part of future success. If you are not growing, someone else will be. You must clear on your drivers for growth, whether it be scale, a defensive move in a competitive market, or an opportunity to expand your mission. It is important that as not-for-profit providers, we retain a meaningful portion of the overall market share for seniors housing and services. Understanding revenue benchmarks can be an important tool in paving a path forward.

For questions about this issue of *Z-News* or other related topics, please refer to the Ziegler banker in your region.

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CAPITAL :: INVESTMENTS :: ADVICE

NOT-FOR-PROFIT SENIOR LIVING RATINGS ACTIONS

SEPTEMBER 25 - OCTOBER 3, 2018

ORGANIZATION	RATING AGENCY	RATING/ OUTLOOK	TYPE OF ACTION	DATE
Atherton Baptist Homes (CA)	Fitch	BB+ Stable	Upgrading Rating	10/3/18

INTEREST RATES/YIELDS

(AS OF SEPTEMBER 28, 2018)

	CURRENT	LAST WEEK	52-WK AVG
30-Yr MMD	3.21%	3.23%	2.91%
Senior Living 30-Yr "A"	4.01%	4.03%	3.71%
Senior Living 30-Yr "BBB"	4.26%	4.28%	3.95%
Senior Living Unrated	5.01%	5.03%	4.69%
Senior Living New Campus	6.50%	6.50%	6.50%
SIFMA Muni Swap Index	1.56%	1.49%	1.27%

	CURRENT	WEEKLY AVERAGE	SPREAD TO MMD
*ZSLMLB Index	4.77%	4.77%	1.54%

**Ziegler Senior Living Municipal Long Bond Index
Source: Ziegler Capital Markets*

FEATURED FINANCING



MENNO-HAVEN, INC.
Chambersburg, Pennsylvania

The Franklin County Industrial
Development Authority, Revenue Bonds,
Series 2018

\$99,555,000

MARKET COMMENTARY

FROM A CAPITAL MARKETS PERSPECTIVE

The major equity indexes finished mixed again last week, the technology-heavy Nasdaq Composite Index finished the week up 60 points, while most other benchmarks recorded declines. Along with technology stocks, consumer discretionary shares performed well within the S&P 500 Index, while shares for materials and financials sold off. In a reversal from the previous week, high octane, growth stocks significantly outperformed value shares. Market participants noted quarter-end positioning trades by major institutional investors and pension funds.

Policy and Macroeconomic news continue to drive market tone. The new tariffs on goods from China started last week, again making the trade conflict a headline grabbing story. To heighten tensions, Chinese officials refused to attend negotiations in the United States. In a surprise announcement, the Securities and Exchange Commission filed suit against Tesla CEO Elon Musk alleging securities fraud. According to the SEC, a tweet Musk sent on August 7th of this year stated that he was planning to take the publicly-traded electric car company private, which misled the public and hurt investors. The lawsuit sent shares of the company down nearly 12% by weeks-end.

As for fixed income, Treasury bonds finished in positive territory for the week. The week started with the benchmark, 10-year Treasury Note yield, momentarily hitting a four-month high of 3.11%. On Wednesday, following the central bank policy meeting and Chairman Powell's dovish comments on inflation, Treasury bonds rallied back and erased all the early week's losses. The municipal bond market continued to be driven by a lack of activity, as investors focused instead on swapping out of older bonds based on tax considerations. Demand for California and New York debt remained strong. Investors in municipal bond funds again reversed course and pulled cash out of the funds during the latest reporting week. The weekly reporters saw \$384 million of outflows in the week ended Sept. 26 after inflows of \$140 million in the previous 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.

MARKET REVIEW

MONEY MARKET RATES

	9/28/18	1 WEEK AGO	1 MONTH AGO	1 YEAR AGO
Prime Rate	5.25	5.00	5.00	4.25
Federal Funds (weekly average)	1.97	1.91	1.91	1.16
90 Day T-Bills	2.19	2.12	2.09	1.05
30-Day Commercial Paper (taxable)	2.13	2.10	2.02	1.09
Libor (30-day)	2.24	2.21	2.07	1.23
7 Day Tax-Exempt VRDB	1.56	1.48	1.58	0.94
Daily Rate Average	1.58	1.50	1.53	0.95

COMPARATIVE YIELDS

TAXABLE REVENUE

	GOVT	A		MMD	NR**	NR*	BB	BBB	A	AAA
1 Year	2.56	3.01	1 Year	1.89	3.09	3.24	2.99	2.59	2.29	2.09
5 Year	2.94	3.79	5 Year	2.20	3.55	3.70	3.40	3.05	2.75	2.55
7 Year	3.00	4.05	7 Year	2.38	3.93	4.13	3.63	3.38	3.18	2.83
10 Year	3.04	4.29	10 Year	2.60	4.40	4.60	3.95	3.65	3.40	3.05
30 Year	3.18	4.78	30 Year	3.21	5.01	5.21	4.56	4.26	4.01	3.66

(* Representative of retail sales.); (** Representative of institutional sales.)

TAX-EXEMPT MARKET INDICATORS

	THIS WEEK	LAST WEEK	CHANGE	2018 HIGH	LOW
Bond Buyer					
20 Bond Index	4.18	4.15	+0.03	4.18	3.44
11 Bond Index	3.65	3.62	+0.03	3.65	2.94
Revenue Bond Index	4.69	4.66	+0.03	4.69	2.92
30 Year MMD	3.21	3.23	-0.02	3.23	2.56
Weekly Tax-Exempt Volume (Bil)	1.87	5.27	-3.40	11.11	0.71
30 Day T/E Visible Supply (Bil)	6.49	3.45	+3.04	14.29	0.63
30 year "A" Rated Hospitals as a % of 30 Year Treasuries	126.10	125.93	+0.17	128.37%	118.68%

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)		
09/28/18	1.56	5.25	1.97	2.19	2.13	2.24	4.01	-	3.66
09/21/18	1.48	5.00	1.91	2.12	2.10	2.21	4.03	-	3.68
09/14/18	1.49	5.00	1.91	2.10	2.06	2.16	3.94	-	3.59
09/07/18	1.49	5.00	1.91	2.13	2.04	2.12	3.86	-	3.51
08/31/18	1.56	5.00	1.91	2.09	2.02	2.07	3.83	-	3.48
08/24/18	1.58	5.00	1.91	2.09	1.98	2.06	3.80	-	3.45
08/17/18	1.57	5.00	1.90	2.03	1.94	2.06	3.76	-	3.46
08/10/18	1.45	5.00	1.90	2.04	1.98	2.06	3.82	-	3.52
08/03/18	1.29	5.00	1.90	2.00	1.94	2.08	3.80	-	3.50
07/27/18	0.94	5.00	1.90	1.99	1.92	2.07	3.75	-	3.45
07/20/18	0.94	5.00	1.90	1.98	1.96	2.08	3.66	-	3.36
07/13/18	1.01	5.00	1.90	1.96	1.97	2.07	3.66	-	3.36
07/06/18	1.19	5.00	1.90	1.91	1.96	2.09	3.67	-	3.37
06/01/18	1.06	4.75	1.69	1.91	1.86	1.98	3.62	-	3.32
05/04/18	1.61	4.75	1.68	1.83	1.85	1.92	3.80	-	3.50
04/06/18	1.60	4.75	1.68	1.71	1.82	1.89	3.78	-	3.48
03/02/18	1.09	4.50	1.38	1.63	1.65	1.67	3.82	-	3.52
02/02/18	1.08	4.50	1.39	1.48	1.49	1.57	3.73	-	3.43
01/05/18	1.47	4.50	1.41	1.40	1.50	1.55	3.36	-	3.06
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

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