

ZIEGLER INVESTMENT BANKING

SENIOR LIVING FINANCE Z-NEWS

FEATURED ARTICLE

NOT-FOR-PROFIT SPONSORSHIP TRANSITIONS: 2018 YEAR IN REVIEW

With several recent high-profile mergers and affiliations announced in early 2019 (Acts Retirement-Life Communities & Integrace; Evangelical Lutheran Good Samaritan Society & Sanford Health), the not-for-profit sponsorship transition activity continues to garner attention. The current year-end totals for 2018 reflect 61 not-for-profit sponsorship transitions, similar to 2017. Of the 61 transactions, several are large multi-site systems that represent more than 160 communities. That number will likely increase slightly as additional transactions are reported as part of the 2019 *LeadingAge Ziegler 200* survey process. A sampling of the not-for-profit to not-for-profit sponsorship transitions that closed in 2018 include:

- Quaker Heights affiliating with Ohio Living (OH)
- Longhorn Village affiliating with Brazos Presbyterian (TX)
- St. Joseph's John Knox Tampa Bay (FL) affiliating with Concordia Lutheran Ministries (PA)
- The Evergreens (NJ) affiliating with Acts Retirement-Life Communities (PA)
- Jewish Geriatric Services affiliating with Chelsea Jewish Lifecare (MA)
- New Florence Care Center affiliating with St. Andrews Resources for Seniors (MO)
- Merger between Elim Care and Augustana (MN), now known as Cassia

Since 2010, nearly 570 not-for-profit communities have changed hands across 385 transactions. Within that group, roughly one-quarter of the transactions have been not-for-profit organizations affiliating with other not-for-profits. Conversely, roughly 54% have been dispositions to the for-profit sector, which translates into approximately 260 communities that are now owned and managed by for-profit entities. The graph to the right depicts the cumulative growth in the number of sponsorship transitions since 2010. An increase in the number of strategic mergers between multi-site providers has accelerated the number of communities in transition across the last few years.

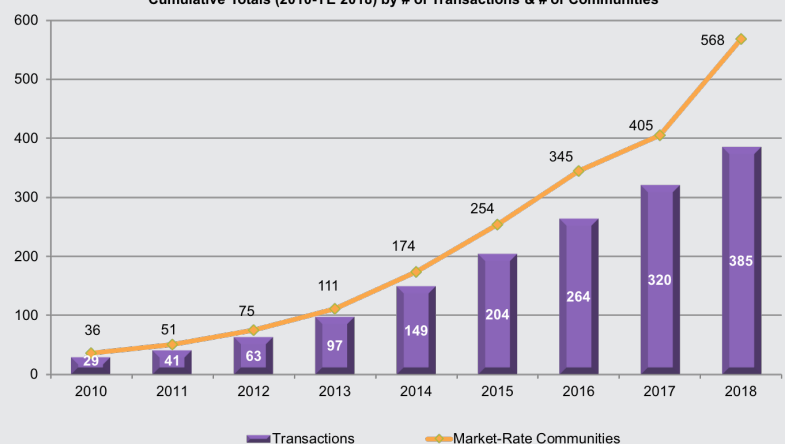
While there continues to be need-driven sponsorship transitions, particularly among distressed communities and those with high-exposure to the skilled nursing pressures, the number of strategic partnerships is on the rise. This is evidenced by the increasing number of multi-site mergers in the past few years, of which few reflect distressed situations, but rather the opportunity to build greater scale in an environment of growing complexity.

Ziegler will continue to not only track the number of sponsorship transitions among not-for-profit senior living providers, but continue in its commitment to provide educational and advisory services to organizations exploring affiliations, mergers, acquisitions or dispositions. There are advantages and drawbacks to various approaches, and finding a partner that aligns with your organization's mission, culture and strategic direction is critical. In the next few months, Ziegler will be releasing additional white papers and educational materials on this topic.

If you have any questions related to this article, the educational events, or any other issues, please contact the Ziegler banker in your region. For additional information on Ziegler's Sponsorship Transition advisory services, feel free to reach out to Stephen Johnson for a confidential discussion (sjohnson@ziegler.com).

NOT-FOR-PROFIT SPONSORSHIP TRANSITIONS CUMULATIVE DATA

Cumulative Totals (2010-YE 2018) by # of Transactions & # of Communities



Note: Includes market-rate communities; excludes government subsidized
Source: Ziegler Investment Banking 12/31/2018

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CAPITAL :: INVESTMENTS :: ADVICE

NOT-FOR-PROFIT SENIOR LIVING RATINGS ACTIONS

FEBRUARY 11, 2019

ORGANIZATION	RATING AGENCY	RATING/ OUTLOOK	TYPE OF ACTION	DATE
The Pines at Davidson (NC)	Fitch	BBB+ Stable	Assigned Rating	2/7/19

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INTEREST RATES/YIELDS

(AS OF FEBRUARY 8, 2019)

	CURRENT	LAST WEEK	52-WK AVG
30-Yr MMD	3.00%	3.02%	3.03%
Senior Living 30-Yr "A"	4.00%	4.02%	3.91%
Senior Living 30-Yr "BBB"	4.40%	4.42%	4.17%
Senior Living Unrated	5.10%	5.12%	4.92%
Senior Living New Campus	6.50%	6.50%	6.50%
SIFMA Muni Swap Index	1.51%	1.43%	1.44%

	CURRENT	WEEKLY AVERAGE	SPREAD TO MMD
*ZSLMLB Index	4.88%	4.90%	1.84%

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

MARKET COMMENTARY

FROM A CAPITAL MARKETS PERSPECTIVE

After posting solid gains during Monday and Tuesday's sessions, the Dow and the S&P 500 pulled back on Thursday, leaving net gains for each respective indexes at minimal levels. This also marked the seventh straight positive week for the Dow. The NASDAQ outperformed the other major indexes last week, and came close to entering a new bull market. The index was up 19% midweek from a recent December low, just one percent away from entering bull market territory if it were to break the 20% threshold. Despite positive news from S&P 500 companies that have been reporting increases in fourth-quarter earnings, many S&P 500 companies are signaling more cautious forecasts for 2019 first-quarter earnings. Overall, 1Q19 earnings are projected to decline 1.9% compared to 1Q18.

A quick resolution seems unlikely for the U.S.-China trade dispute, as the White House signaled on Thursday that President Trump and Chinese President Xi Jinping will not meet prior to a March 1st deadline. This deadline will see a temporary truce expire, allowing the United States the option to impose steeper tariffs on Chinese goods. Negotiators in congress are attempting to work with the White House in order to reach an agreement to avoid another government shutdown as temporary funding for the government expires February 15th. The uncertainty behind whether negotiations will be successful before the deadline is increasing the likeliness of a spike in market volatility as the deadline approaches.

Concerns over global growth sparked a rise in U.S. government bond prices on Thursday, as investors attempted to keep their cash safe. The resulting drop in yields sent the 10-year benchmark below 2.65%, its lowest level in roughly five weeks. In last week's FOMC meeting, Chairman Jerome Powell cited slowing global growth, muted inflation pressures, and tighter financial conditions as reasons why the Federal Reserve will remain patient in regards to future rate hikes in 2019. Last week, municipal bond funds experienced \$1,150 million of weekly reporting fund inflows. Municipal long term funds had \$713 million of weekly inflows, high yield funds had \$296 million of weekly inflows, national funds had \$1,013 million of weekly inflows, and ETF funds had \$378 million of weekly outflows. In 2019, there have been 5 weeks of inflows and 1 week of outflows. In 2018, there were 29 weeks of inflows and 23 weeks of outflows.

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

	2/08/19	1 WEEK AGO	1 MONTH AGO	1 YEAR AGO
Prime Rate	5.50	5.50	5.50	4.50
Federal Funds (weekly average)	2.40	2.40	2.40	1.41
90 Day T-Bills	2.41	2.39	2.42	1.55
30-Day Commercial Paper (taxable)	2.45	2.40	2.51	1.50
Libor (30-day)	2.51	2.51	2.51	1.59
7 Day Tax-Exempt VRDB	1.51	1.43	1.89	0.98
Daily Rate Average	1.48	1.47	1.00	0.89

COMPARATIVE YIELDS

TAXABLE REVENUE

	GOVT	A		MMD	NR*	BB	BBB	A	AAA
1 Year	2.52	2.97	1 Year	1.61	3.11	2.86	2.46	2.06	1.81
5 Year	2.44	3.29	5 Year	1.72	3.42	3.12	2.72	2.42	2.07
7 Year	2.52	3.57	7 Year	1.86	3.76	3.41	3.11	2.71	2.31
10 Year	2.63	3.88	10 Year	2.14	4.24	3.89	3.54	3.14	2.59
30 Year	2.97	4.62	30 Year	3.00	5.10	4.75	4.40	4.00	3.45

(* Representative of institutional sales)

TAX-EXEMPT MARKET INDICATORS

	THIS WEEK	LAST WEEK	CHANGE	2019 HIGH	LOW
Bond Buyer					
20 Bond Index	4.23	4.22	+0.01	4.23	4.09
11 Bond Index	3.70	3.69	+0.01	3.70	3.58
Revenue Bond Index	4.70	4.69	+0.01	4.70	4.56
30 Year MMD	3.00	3.02	-0.02	3.11	2.93
Weekly Tax-Exempt Volume (Bil)	5.58	2.45	+3.13	5.80	0.20
30 Day T/E Visible Supply (Bil)	5.47	6.40	-1.13	6.60	3.25
30 year "A" Rated Hospitals as a % of 30 Year Treasuries	134.22	134.00	.22	134.42%	130.74%

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)		
02/08/19	1.51	5.50	2.40	2.41	2.45	2.51	4.00	-	3.45
02/01/19	1.43	5.50	2.40	2.39	2.40	2.51	4.02	-	3.47
01/25/19	1.29	5.50	2.40	2.36	2.45	2.51	4.10	-	3.55
01/18/19	1.28	5.50	2.40	2.35	2.51	2.50	4.04	-	3.49
01/11/19	1.39	5.50	2.40	2.42	2.51	2.51	4.05	-	3.50
01/04/19	1.63	5.50	2.40	2.42	2.47	2.52	3.93	-	3.38
12/28/18	1.71	5.50	2.39	2.33	2.42	2.51	4.02	-	3.47
12/21/18	1.68	5.50	2.24	2.37	2.50	2.47	4.04	-	3.49
12/14/18	1.64	5.25	2.19	2.41	2.46	2.45	4.17	-	3.62
12/07/18	1.65	5.25	2.19	2.39	2.30	2.38	4.08	-	3.55
11/30/18	1.69	5.25	2.18	2.35	2.27	2.34	4.14	-	3.69
11/23/18	1.69	5.25	2.18	2.39	2.25	2.31	4.18	-	3.73
11/02/18	1.61	5.25	2.18	2.25	2.25	2.31	3.83	-	3.38
10/05/18	1.53	5.25	2.16	2.21	2.21	2.28	4.11	-	3.76
09/07/18	1.49	5.00	1.91	2.13	2.04	2.12	3.86	-	3.51
08/03/18	1.29	5.00	1.90	2.00	1.94	2.08	3.80	-	3.50
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

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