ZIEGLER INVESTMENT BANKING
SENIOR LIVING FINANCE Z-NEWS
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FEATURED ARTICLE

STRATEGIC GROWTH INITIATIVES FOR REVENUE DIVERSIFICATION

Many senior living organizations are actively engaged in strategic planning activities, particularly considering the background of the past two years. There are a number of common elements in the majority of plans related to items such as being an employer of choice, integrating technology and innovation, and so forth. An additional conversation on the table for many organizations is continued diversification. This can mean different things to different organizations. It may translate into diversifying the older adults being served (e.g., expanding income levels), it may mean diversifying to better manage risk across the organization, and it might be a need to supplement traditional revenue streams with alternate ones. In reality, it is probably all of the above. This issue of ***Z-News*** breaks down this discussion and also identifies some of the more traditional revenue streams and those that appear to be emerging within the senior living & care sector.

Revenue Diversification: Preparation
Revenue diversification often comes into play with larger strategic growth conversations. Before any organization jumps into strategies for exploring alternate revenue streams, there needs to be some up-front work done on the growth preparation front.

- Why are we wanting to grow?
- Are we all in agreement on how we want to (and do not want to) grow?
- What is our internal risk tolerance related to growth opportunities?
- Are we prepared for growth in terms of staff resources, capital needs, expertise, etc.?
- Does our corporate structure facilitate growth opportunities and appropriately mitigate risk?

Working through these types of questions will better position an organization for success with its growth initiatives.

Revenue Diversification Strategies: Traditional & Emerging
The graphic below is intended to depict some of the traditional and emerging alternate service lines and revenue streams. This is not an exhaustive list, but a summary of key ones to note.

HOME CARE, HOME HEALTH, HOSPICE	PHARMACY
PACE	REHABILITATION COMPANY OWNERSHIP
CONTINUING CARE AT HOME	STAFFING AGENCY
THIRD-PARTY MANAGEMENT	BEHAVIORAL HEALTH
SERVICES *(IT, CONSULTING DEVELOPMENT ADVISORY)*	ADDICTION SERVICES

Data from *Ziegler's CFO Hotline*℠ reports reveal that the pandemic has doubled interest in growing through home and community-based services **(HCBS)**. These service lines are not necessarily new, but consumer demand continues to grow. The demographic growth and realities of the pandemic have driven interest in services within one's home. While most not-for-profit senior living organizations who have HCBS platforms have annual revenue less than $10MM, for smaller organizations, this can be a substantial income stream. There is also a portion of not-for-profits who have substantial HCBS platforms and revenue on an annual basis. These organizations have grown and evolved HCBS platforms generally over a number of years and have structured their operations with experts who know these business lines very well. After all, they definitely run very differently than our bricks-and-mortar operations.

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While not mainstream by any means, there are some additional emerging categories to make note of. **Pharmacy** is an area that some not-for-profit providers have been successful with. There have been others who have attempted and then walked away from this business. It is not an easy business line to master, but if the approach scale and business model can be achieved, at a minimum it can be a way to service your own communities. There are some who provide services to others as well.

Behavioral health is another area that is receiving a lot of chatter lately. If anyone has been paying attention to the mental health trends among older adults, it is clearly that the need for mental and behavioral health services is only going to increase. This is an entirely different vertical to senior living and organizations need to carefully do their homework. There are already some not-for-profit senior living providers who offer inpatient and outpatient services, but also an increasing number who are exploring this service line as a possibility.

This article does not do a deep dive into each of the emerging areas, but is intended to stimulate discussions and provide revenue diversification examples. If nothing else, the past two years has taught us that we need to think outside the box and be open to change. Mission conversations are at the center of these discussions as well. There can be financial benefits to revenue diversification, but the board and leadership team need to feel comfortable with mission alignment around any growth initiative.

In closing, we encourage organizations to continue to innovate and think creatively about strategic opportunities for growth. There is much expertise in the sector and there are often multiple ways to demonstrate that beyond what we have traditionally offered for many years.

For questions related to topics covered in this article, we encourage readers to follow-up with their regional Ziegler banker.

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NOT-FOR-PROFIT SENIOR LIVING RATINGS ACTIONS

AS OF FEBRUARY 23, 2022

ORGANIZATION	RATING AGENCY	RATING/ OUTLOOK	TYPE OF ACTION	DATE
Southminster (NC)	Fitch	BB Stable	Affirmed Rating Assigned IDR*	2/16/22
Meadowlark Hills (KS)	Fitch	BB+ Stable	Assigned Rating Affirmed Rating Affirmed IDR*	2/18/22
Westminster-Canterbury on Chesapeake Bay Obligated Group (VA)	Fitch	BB+ Stable	Downgraded Rating Assigned IDR*	2/18/22
Presbyterian Homes Obligated Group (IL)	Fitch	A- Stable	Affirmed Rating Assigned IDR*	2/22/22
Harrogate (NJ)	Fitch	NR	Withdrew IDR*	2/23/22

** IDR – Issuer Default Rating (FitchRatings)*

Any non-Ziegler sources referenced in this Z-News are believed to be reliable but cannot be guaranteed.

INTEREST RATES/YIELDS

WEEK ENDING FEBRUARY 18, 2022

	CURRENT	LAST WEEK	52-WK AVG
30-Yr MMD	2.05%	1.96%	1.59%
Senior Living 30-Yr "A"	2.85%	2.76%	2.17%
Senior Living 30-Yr "BBB"	3.25%	3.06%	2.46%
Senior Living Unrated	4.05%	3.86%	3.60%
Senior Living New Campus	5.25%	5.16%	5.31%
SIFMA Muni Swap Index	0.19%	0.17%	0.05%

	CURRENT	WEEKLY AVERAGE	SPREAD TO MMD
ZSLMLB Index†	4.08%	4.08%	2.78%

† Ziegler Senior Living Municipal Long Bond Index

Source: Bloomberg BVALS

FEATURED FINANCING

THE REDWOODS

Mill Valley, California

California Municipal Finance Authority,
Insured Refunding Revenue Bonds,
Series 2022

$23,550,000

February, 2022

MARKET REVIEW

MONEY MARKET RATES

	2/18	LAST WEEK
Prime Rate	3.25	3.25
Federal Funds (weekly average)	0.07	0.07
90 Day T-Bills	0.33	0.37
30-Day Commercial Paper (taxable)	0.08	0.08
Libor (30-day)	0.16	0.12
7 Day Tax-Exempt VRDB	0.19	0.17
Daily Rate Average	0.05	0.05

COMPARATIVE YIELDS

	TAXABLE REVENUE	
	GOVT	A
2 Year	1.46	2.01
5 Year	1.81	2.61
7 Year	1.91	3.06
10 Year	1.92	3.37
30 Year	2.24	4.14

	MMD	NR*	BB	BBB	A	AAA
1 Year	0.84	2.64	2.14	1.64	1.19	0.99
5 Year	1.41	3.31	2.81	2.31	1.86	1.61
7 Year	1.55	3.50	3.00	2.50	2.10	1.80
10 Year	1.67	3.72	3.22	2.72	2.42	1.97
30 Year	2.05	4.30	3.80	3.30	3.00	2.50

(Representative of institutional sales)*

TAX-EXEMPT MARKET INDICATORS

Bond Buyer	THIS WEEK	LAST WEEK	CHANGE
20 Bond Index	2.54	2.41	+0.13
11 Bond Index	2.07	1.94	+0.13
Revenue Bond Index	2.45	2.32	+0.13
30 Year MMD	2.05	1.96	+0.09
Weekly Tax-Exempt Volume (Bil)	6.69	3.39	+3.30
30 Day T/E Visible Supply (Bil)	3.62	5.40	-1.78
30 year "A" Rated Hospitals as a % of 30 Year Treasuries	133.9	113.6	+20.3