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Learning Objectives

- Understand the importance of keeping your board up to date on the type and velocity of affiliations and sponsorship transitions (a.k.a. mergers and acquisitions) happening in senior living and know the steps to take now to be in a position of strength should acquisition or sponsorship transition be in your organization's future
- Learn trends and helpful operational practices in the for-profit sector with affiliations, mergers, and acquisitions
- Examine case studies to illustrate the importance of early board education in a consolidation-heavy market and take away a customizable tool to use with your board for future discussion and planning

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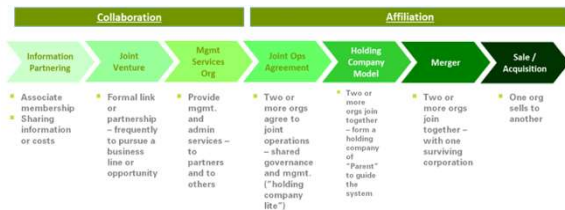
Why is this a focus?

- Limited Resources in an environment that is resource dependent
 - Capital
 - Human
- Complexities of Healthcare/Labor Shortages
 - Downsizing/Disposition of SNF
 - COVID-19
- Financial Pressures
 - Weathering the Storm
 - Prolonged reduction in occupancy and the financial implications
 - Leadership Turnover
 - Aging C-Suite
 - Early Retirements

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Importance of Partnerships

- Use of partnerships to enhance resident experience and organizational efficiencies
 - Allows organization to focus on its strengths
 - Opportunities across all departments and functions



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What are Strategic Opportunities?

- Often springs from spirit of collaboration
- Shared Resource Partnerships
 - Insurance pools, Group purchasing, Technology initiatives
- Service Line Expansion/Collaboration
 - Home & Community Based Services
 - LIFE/PACE Programs
 - Physician Services, Care Management/Telemedicine

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What are Strategic Opportunities?

- Strategic Partnership/Joint Venture
 - Joint program development or service line expansion
- Affiliation/Collaboration
 - Similar sized organizations combining to share resources
 - Small organization "partnering" with larger to assist with growth
- Affiliation – Merger/Purchase
 - Common strategy used by larger "systems" to grow their organizations
 - Catalyst for "affiliate" or seller may be proactive or driven by financial challenges

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Why Consider an Affiliation?

- Survival – typically one weaker organization
- Economies of scale and efficiencies
- Expand intellectual capital and people resources
- Spread risk – better safety net
- Growth – mission, programmatic, financial, or other reasons
- Enhance access to capital
- Diversify or solidify market base
- Name recognition/branding
- Liquidity "back-stop" / additional working capital

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Why Consider and Affiliation?

Desperate	Determined	Desirable
<p>In need of a cash infusion (which may range from imminent to expected need)</p> <p>And/or is unable to afford needed improvements to the campus.</p> <p>Both may be the result of unmarketable physical facilities – largely due to inattention or inability to address during the past 10+ years.</p> <p>Few options, likely to cede control</p>	<p>Have 'determined' to pursue an affiliation in order to achieve objectives that may include enhanced access to capital but also include other benefits, such as developing a safety net, providing additional expertise, branding/ identity, leadership or others. Are active, though deliberately considering options.</p> <p>Might also be used to describe an organization 'determined' not to affiliate</p> <p>Able to prioritize, balance advantages/disadvantages</p>	<p>Reasonably strong – to strong financially, occupancy is good – is adept at considering how mission and vision might be advanced through an affiliation strategy</p> <p>Are aware of both the challenges and opportunities within the field, see affiliation as a potential strategy, but also see an independent course as having value.</p> <p>Decisions will depend on finding a compelling reason to affiliate, and chemistry</p> <p>Many options – able to walk away if objectives not met</p>

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- ### Board Discussions—Preliminary Education
- Industry Trends
 - You're not the first to go down this road
 - Types of Corporate Structures
 - Benefits of Considering Partnership/Affiliations
 - Process

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- ### Board Discussions – Affiliations
- If result of the Board Education and the Strategic Plan are such that Affiliations, Partnerships, or Sponsorship
 - Transitions are even a potential – take the extra step to further define what exactly you'll consider
 - Be Pro-Active to increase your chances for:
 - Being successful
 - Being responsive
 - Achieving Board buy-in

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Board Alignment

- Board composition critical: change it if necessary
- Ongoing Board education critical
- Ask the tough questions; have the tough conversations
- Reframe the mindset around mission and vision as a reason to do something versus doing nothing
- Execute due diligence; don't guess
- Leverage what exists; create synergy
- Rethink organizational role in the market; advocates, collaborators; not just providers

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Understanding Corporate Culture

Culture is Critical to a Successful Outcome

Driving Forces

- Tradition
- Unspoken Rules
- Practices
- Ethos – Sense of Place
- Behaviors

Guiding Forces

- Strategy
- Goals/Objectives
- Policies
- Formal Messaging
- Activities

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Sell Side and Buy Side Process

Simultaneous Internal and External Process

What Types of Providers Do We Want to Talk to

- Faith-based or not (and which)
 - For-Profit/Non-Profit
 - Local/Regional/National
- Profile Potentials

Prepare Opportunity Memorandum/Value Proposition

- History, Mission
- Operations
- Financials

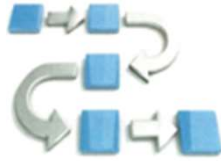
Non-Disclosure Agreement

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Process (Continued)

- Distribute Opportunity Memorandum
- Receive Indications
- Interviews
- Comparison Matrix
- Choose Partner
- Due Diligence
- Documentation
- Close



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Use of Tools

- Meant to be a tool
 - Not be-all-to-end-all
- Forces everyone to agree on what best outcome looks like
- If looking for the perfect match – may be single forever



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Board Tool – Matrix Tool

- What does our ideal situation look like
- What factors do we use to describe that situation
 - Location
 - Levels of Care
- What other factors should we consider
- Define what is ideal vs. Less preferable for each factor
- Relativity – which areas are more important than others



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Matrix Example

Matrix to Quantify Interest in Opportunities					
	Weight	3 Ideal	2 Acceptable	1 or 0 Luke-warm	Score
Level(s) of Care Score	3x	Levels currently identified need to "fill out" in our current offering	Levels currently identified need to "fill out" in our current offering plus other levels	Levels not needed (ie SNF?)	
Proximity of Location Score	2x	Within the same county	Within 90 minute drive	Further than 90 minute drive away	
Facility location Score	1x	1 st Ring Suburban	Urban	Rural	

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Matrix Example

Matrix to Quantify Interest in Opportunities					
	Weight	3 Ideal	2 Acceptable	1 or 0 Luke-warm	Score
Financial Strength Score	3x	Solid	Breakeven	Troubled	
Quality of Care Score	3x	High Level/ 5 Star	Mid Level	Troubled	
Occupancy Score	2x	>95% occupancy	83%-94% occupancy	<82% occupancy	
Their Board Willingness Score	1x	Pro-active Engaged board	Luke-warm	"Hostile Take-over"	

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Matrix Example

Matrix to Quantify Interest in Opportunities					
	Weight	3 Ideal	2 Acceptable	1 or 0 Luke-warm	Score
Timing – how does this fit with our current situation Score	2x	Perfect Timing – ready and willing for challenge	Not ideal but don't want to miss on opportunity	Too much happening at our community to think about	
Capital Outlay required Score	2x	\$0	\$0 Outlay – assumption of "reasonable" amount of debt	Significant cash outlay upfront	
Facility condition Score	2x	Well maintained	Well maintained but some deferred maintenance	Significant deferred maintenance	
Facility lay-out Score	2x	Very Good	Not ideal but marketable	Need to change (ie semi-private rooms)	

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Matrix Example

Matrix to Quantify Interest in Opportunities					
	Weight	3 Ideal	2 Acceptable	1 or 0 Luke-warm	Score
Staff Score	1x	Solid and Dedicated	Average	Average	
Current ownership Score	1x	Non-Profit	Private For Profit	County	
Faith/Sponsorship Score	1x	Same as ours	"Compatible" Faith to ours	"Incompatible" faith to ours	
Ease to close Score	1x	Same as ours	Reasonable	Tedious	

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Matrix Example - Scoring

- Each factor is weighted
- Determine Minimum and Maximum total points available

	Top Third	Middle Third	Bottom Third	
Totals	53-78 points	27-52 points	0-26 points	78 possible points

Factors, preferences, and weighting can be completely customized

- Run a couple dummy-scenarios through matrix to double-check weighting
- Prevent second guessing when it goes live

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A Case Study – The Wrong Way

Board #1:

- Unnecessary desperation communicated by senior leadership
- Lack of due diligence
- No clear strategy or expressed outcome
- Unreasonable terms and expectations
- Cultural issues between collaborating providers

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A Case Study – The Right Way

Board #2:

- Board development, education and composition
- Helped board members leave with grace and dignity
- Developed clear strategy of expectations and non-negotiables
- Engaged outside support where needed
- Focused on the organizational need; not personal agendas
- Developed realistic timeline to include before, during and after transition plans
- Courted multiple prospective partners
- Agree to and embraced transparency at all time
- Over-communicated

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Parting Shots

- Many benefits from partnership
- Education
- Honest Assessments and Discussions
- Be Prepared
 - Be Proactive with Board
 - Know the For-Profits are prepared
- Preservation and Strengthening of Mission

If you're not
at the table,
you're
probably on
the menu

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Disclaimer

Additionally, Information and opinions are current up to April 3, 2023, and are subject to change without notice. The opinions expressed by Andrew Nesi are strictly his own and do not necessarily reflect those of HJ Sims or its affiliates. HJ Sims is not providing any financial, economic, legal, accounting, or tax advice or recommendations

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Thank you!



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