

EXECUTIVE CONNECT

LeadingAge[®]CA

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Agenda

Macro Trends

Growth Trends

Technology

Skilled Nursing Trends

Capital Markets

Q&A

Macro Trends

What We Are Seeing and Hearing



OPPORTUNITIES

- Demographic growth
- Demand for diversified services
 - Residential
 - HCBS
 - Ancillary business lines
- Technology and innovation
- Creativity in joint ventures & partnerships

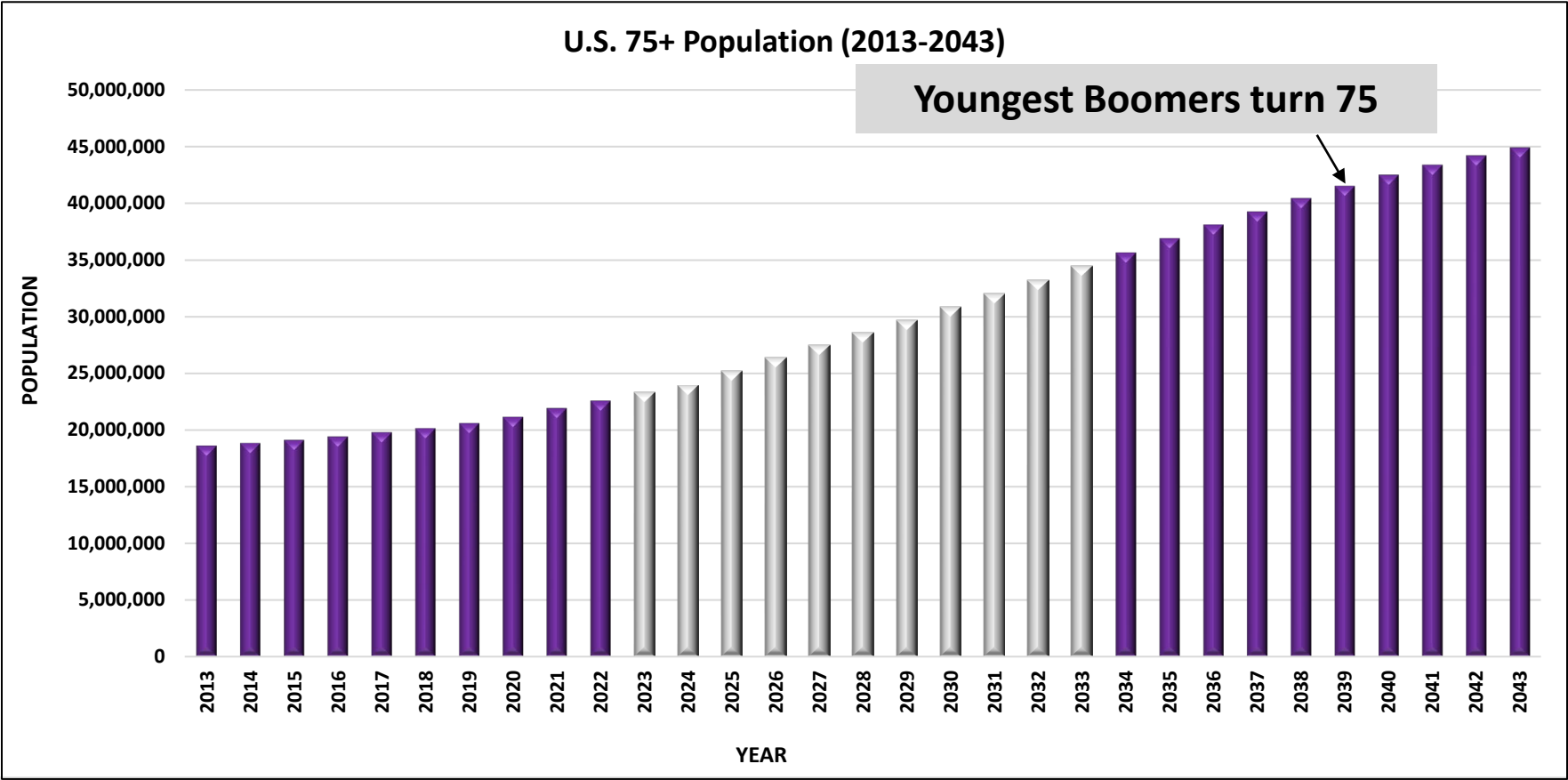


HEADWINDS

- Workforce challenges
- Expense pressures
- Construction-cost inflation
- Pressured skilled nursing environment
- Occupancy and Financial pressures (for some)
- Regulatory environment

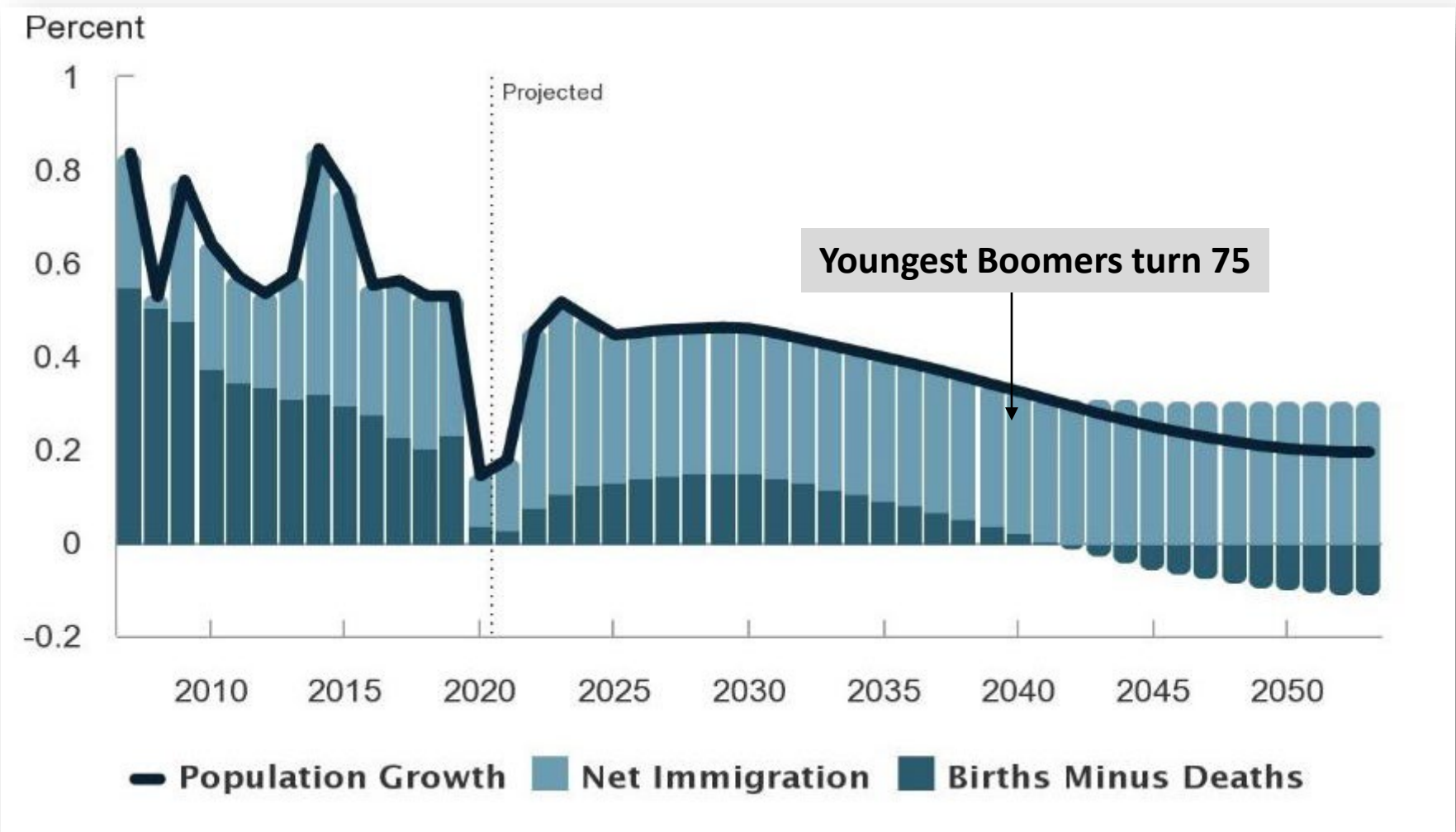
Demographics: Significant Decade Ahead

Increase in 75+ Population by Decade		
2013-2023: 6.9M	2023-2033: 11.7M	2033-2043: 7.9M



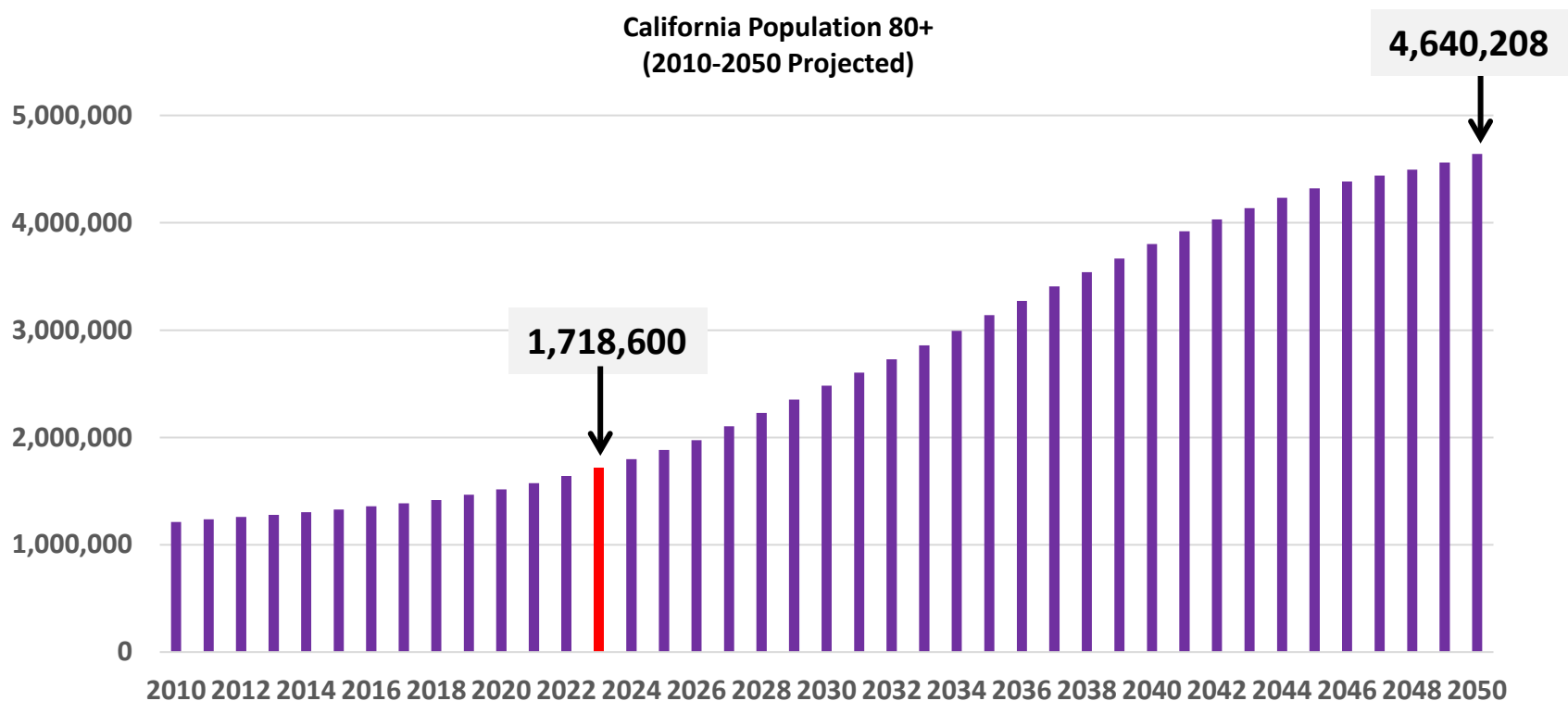
Demographic Trends Across the Age Spectrum

2023 U.S. Annual Population Growth Rate (All Ages): .50%



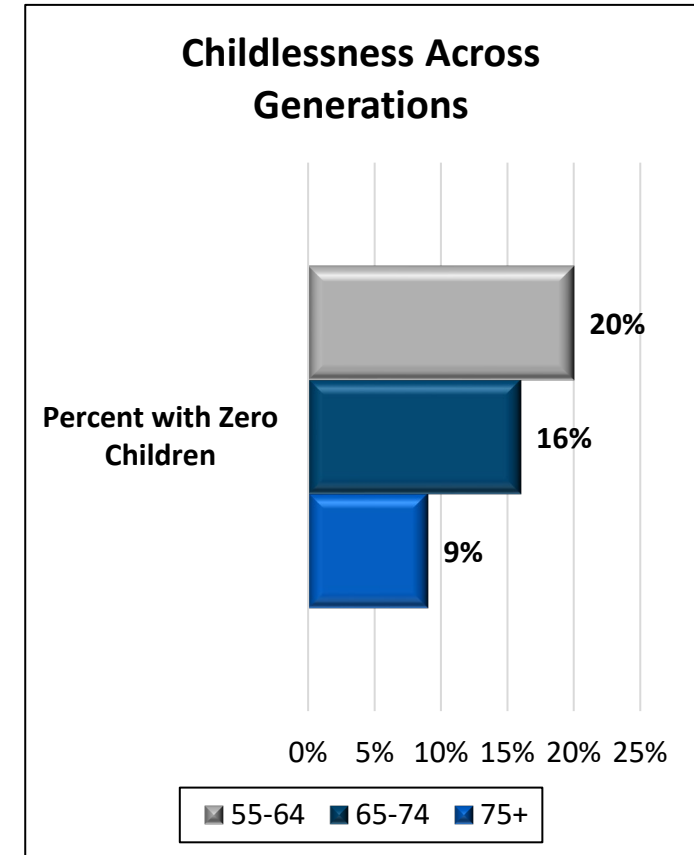
California Demographic Growth - 80+ Age Group

- By 2030, the 60+ population will outnumber those 18 and under for the first time in the State’s history
- The 80+ population is projected to grow nearly 270% by the year 2050, from 1.7 to 4.6 million



Demographic Trends: Additional Notes & Trends

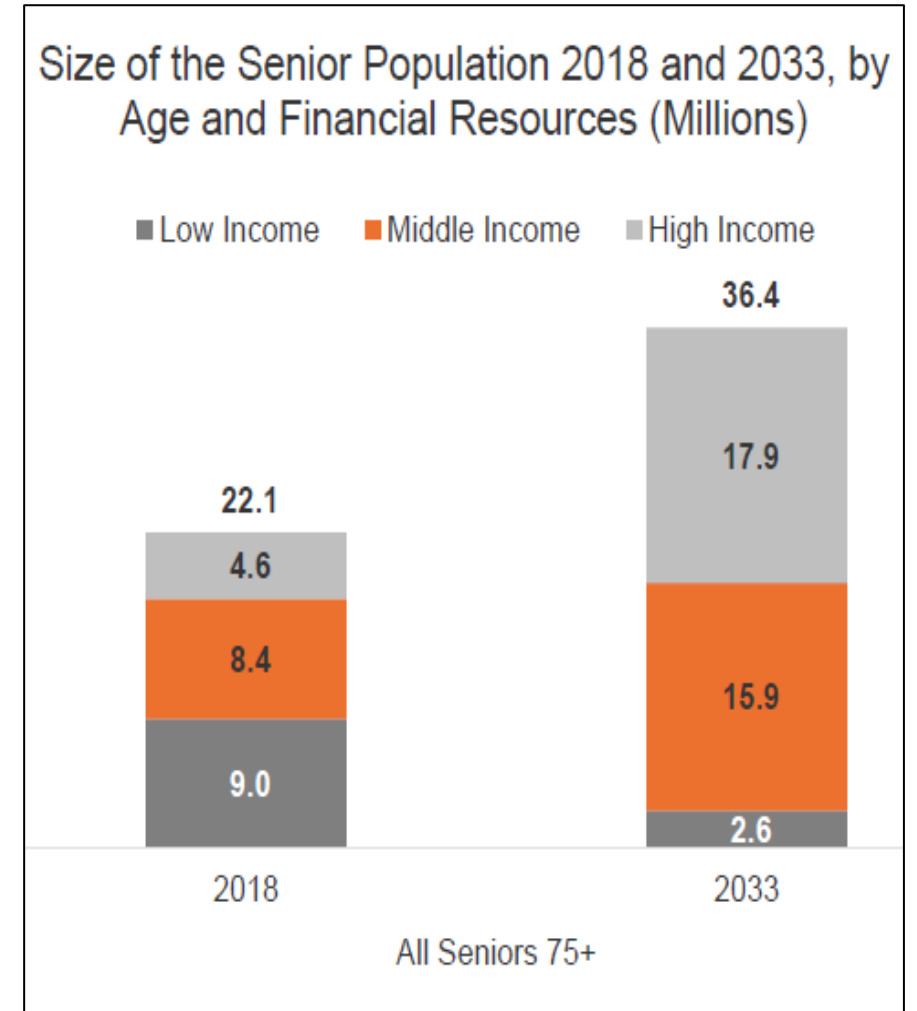
- Trends within the “Baby Boomer” cohort
 - Less likely to have children than previous older adult generations
 - More likely to be divorced than previous older adult generations
- Becoming more racially and ethnically diverse, compared to previous generations
- Have more options for care and services than ever before
- Trends with Independent Living residents:
 - Choice, control
 - Experiences, amenities
 - Resident involvement
 - ESG initiatives



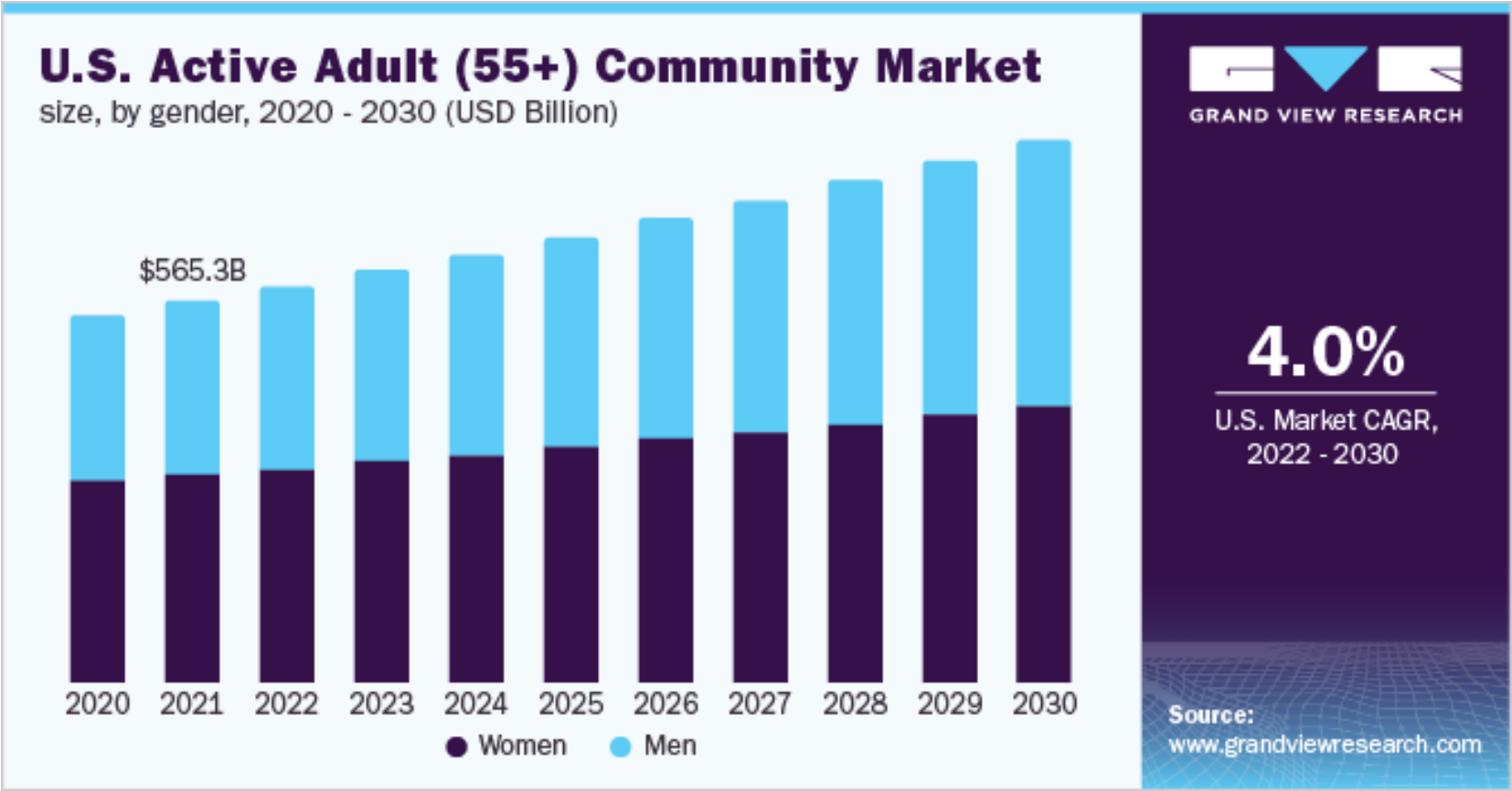
Source: Pew Research Institute, 2021

Affordability And The “Middle Market” Senior

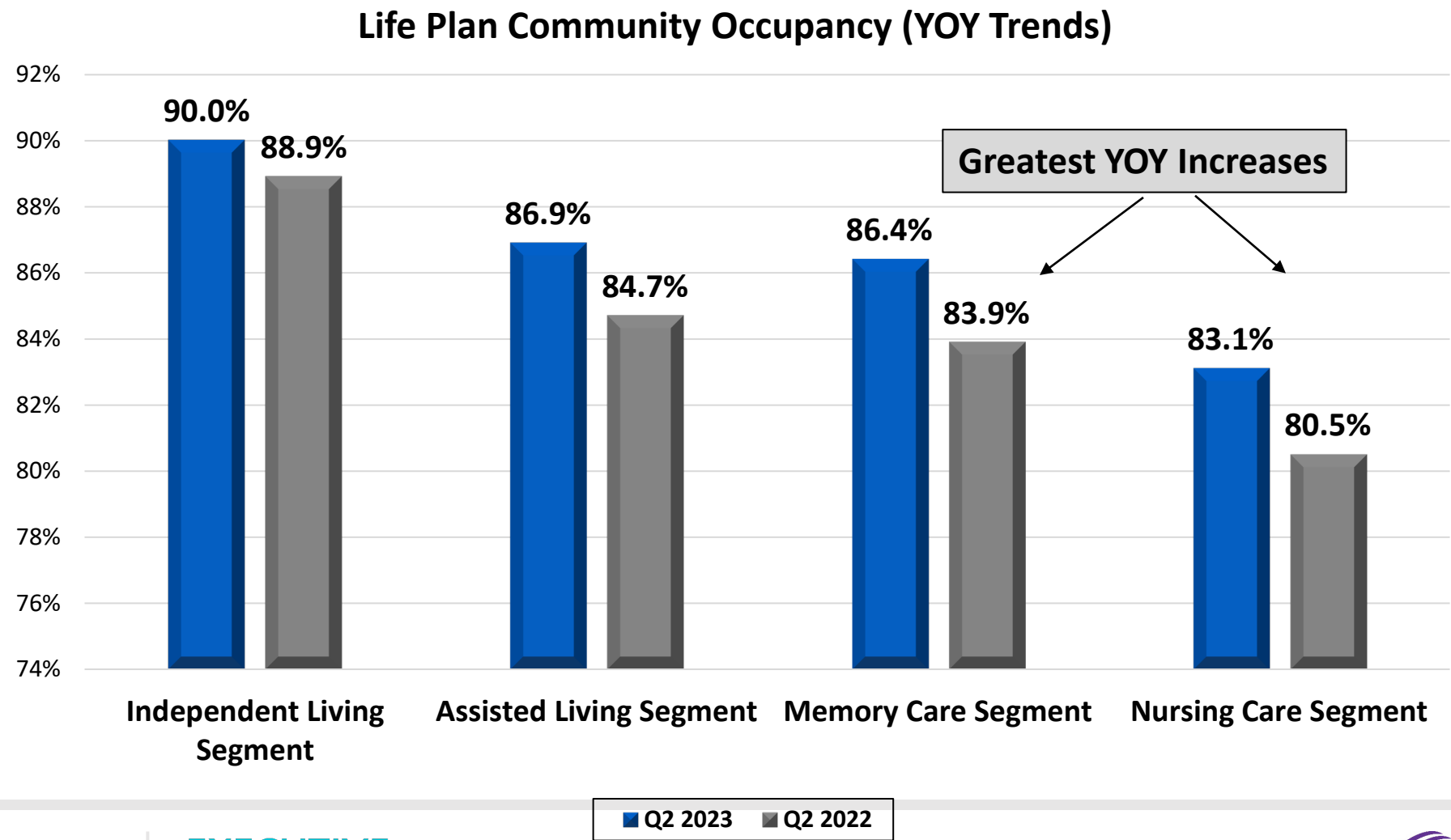
- Significant focus on the “middle market” senior
 - Options are limited: private pay or spend-down to Medicaid
- Home-based programs will be key



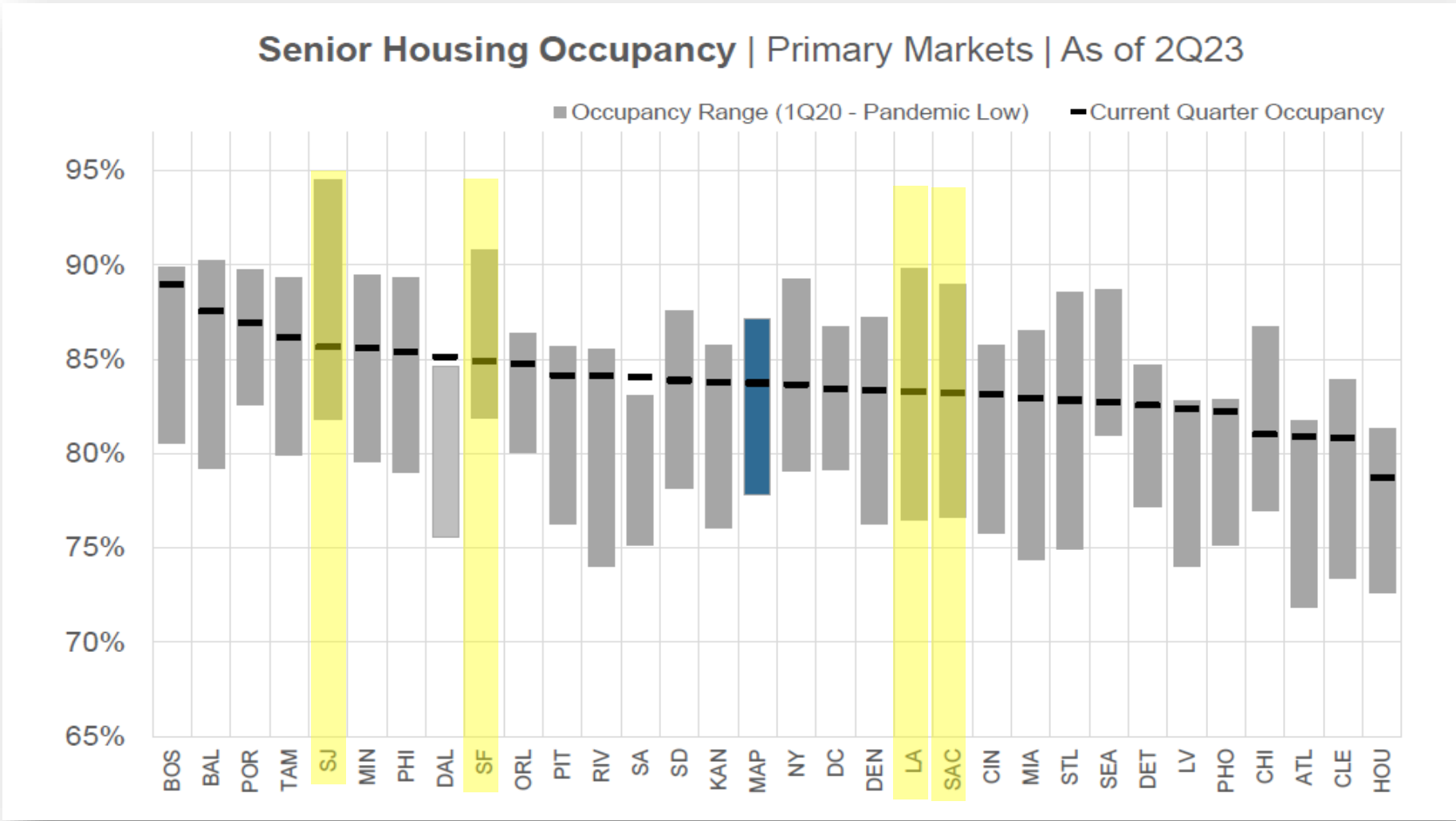
The Active Adult Opportunity



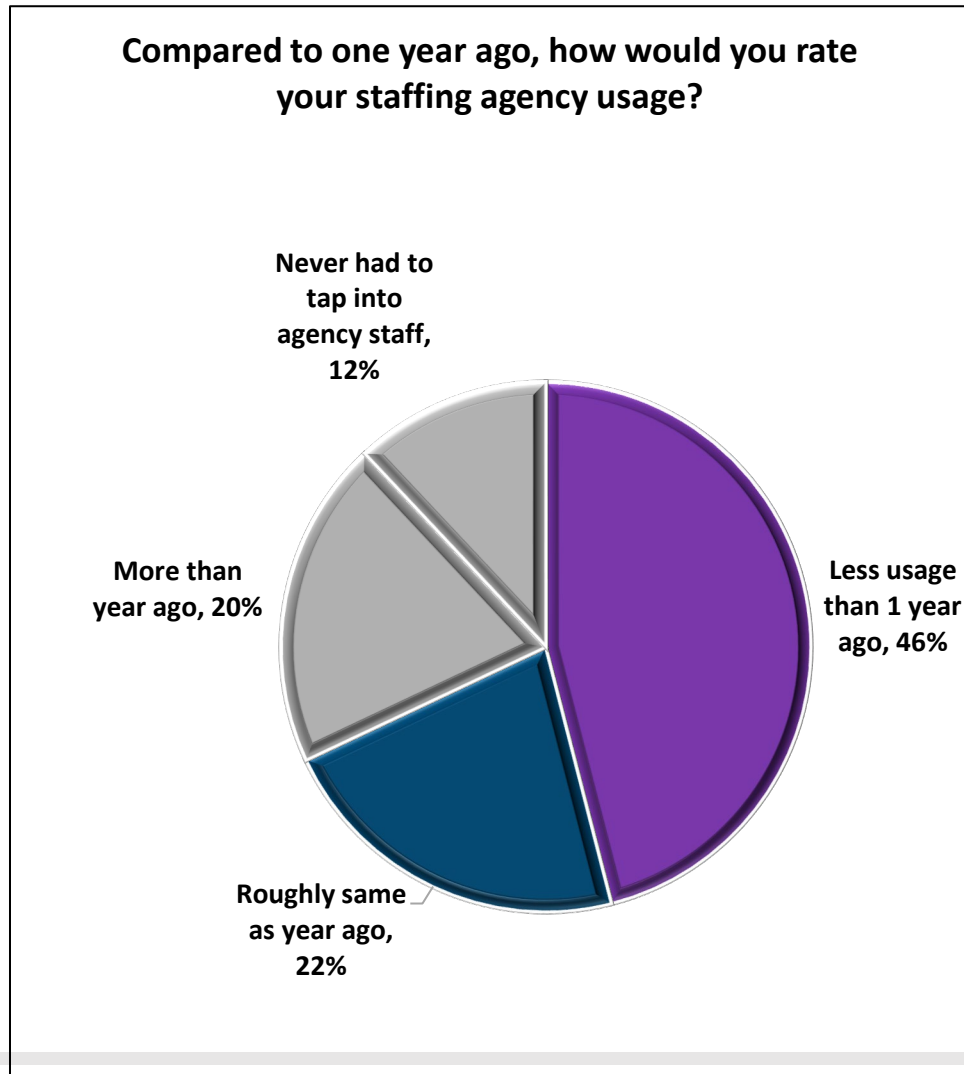
CCRC Occupancy By Level of Living Q2 2022 vs. Q2 2023



Occupancy in 31 Primary Metro Markets



Workforce Challenges: Making Progress



- Still significant focus among leadership team
- Significant wage increases
- Specialty positions: recruitment, retention
- Skilled nursing downsizing for some
- Driving growth strategy for some

Promising Practices in Workforce Recruitment and Retention

PROMISING PRACTICES

- Empathy: The pandemic has caused people to reevaluate what they want from a job...and from life
- Designing environments for staff
- Specialty leadership positions (recruitment; talent; retention)
- Unbundling of benefits; substituting benefits for pay
- Discounts at local businesses
- Internal staffing agencies; international recruitment
- Expanding recruitment pool (retirees; high school students; alumni; refugees)
- Commitment to Diversity, Equity & Inclusion
- Utilization of technology (recruitment, retention, payment strategies, efficiencies)
- Development of/participation in training programs
- Workforce housing (develop or partner)

 *The Gateway-In Project®*

 **VISION CENTRE**
LEADERSHIP DEVELOPMENT FOR AGING SERVICES

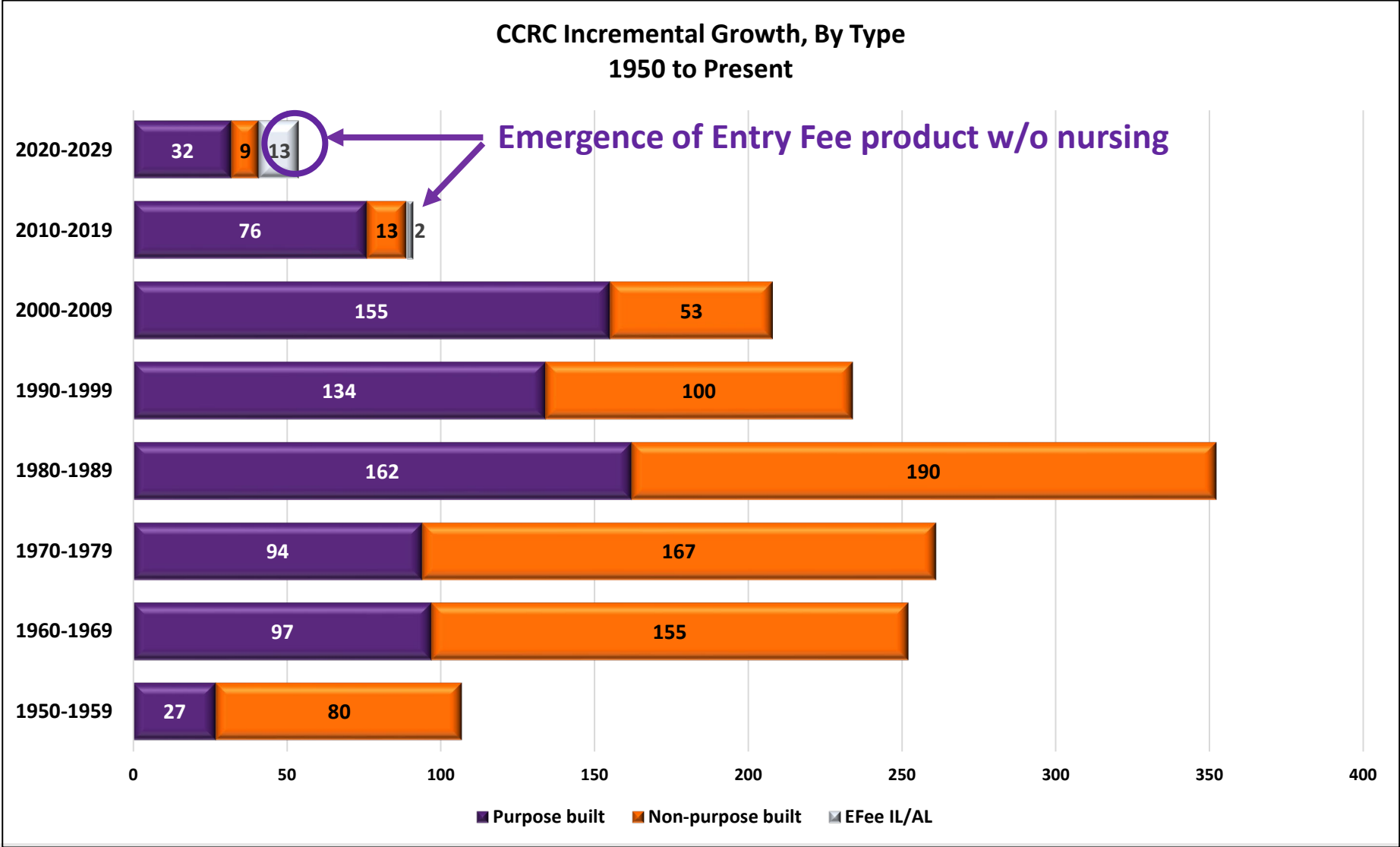
GrowthTrends

Today's Retirement Options

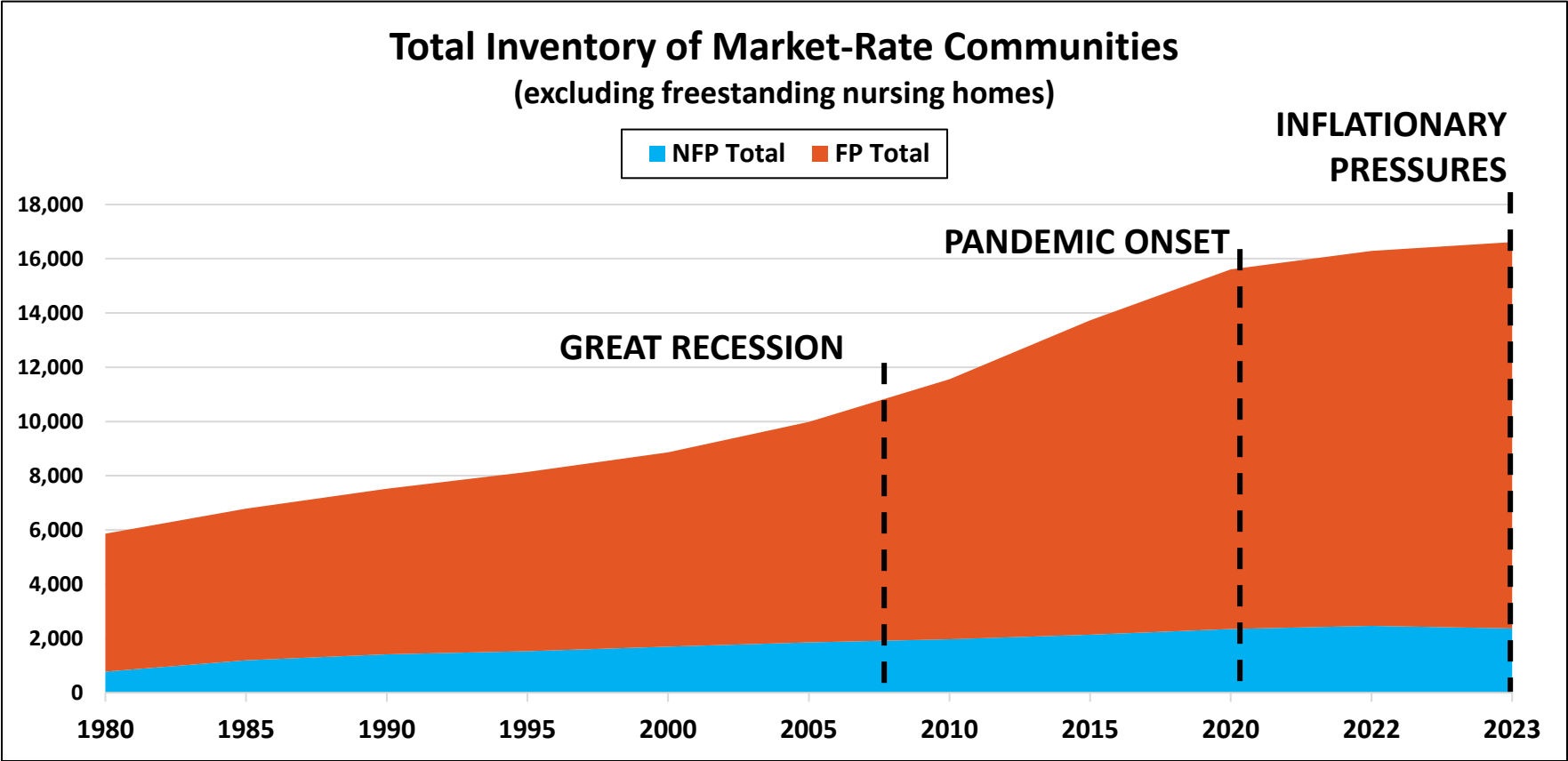
A Look at Seniors Housing & Services Supply

		% NFP
Life Plan Communities ¹	1,911 communities	74%
Adult Day ²	4,127 centers	50%
Affordable Housing ³	2.86MM units	33%
Nursing Homes ^{2*}	14,933 homes	23%
Home Health ²	11,682 agencies	16%
Hospice ²	6,068 agencies	15%
Majority Independent Living ⁴ <small>excluding LPCs & AA</small>	1,924 properties	14%
Majority Assisted Living ⁴	6,785 communities	8%
Freestanding Memory Care ⁴	840 communities	4%
Active Adult ⁴	536 communities	1%

CCRC Growth and Emergence of IL/AL Entry-Fee Communities



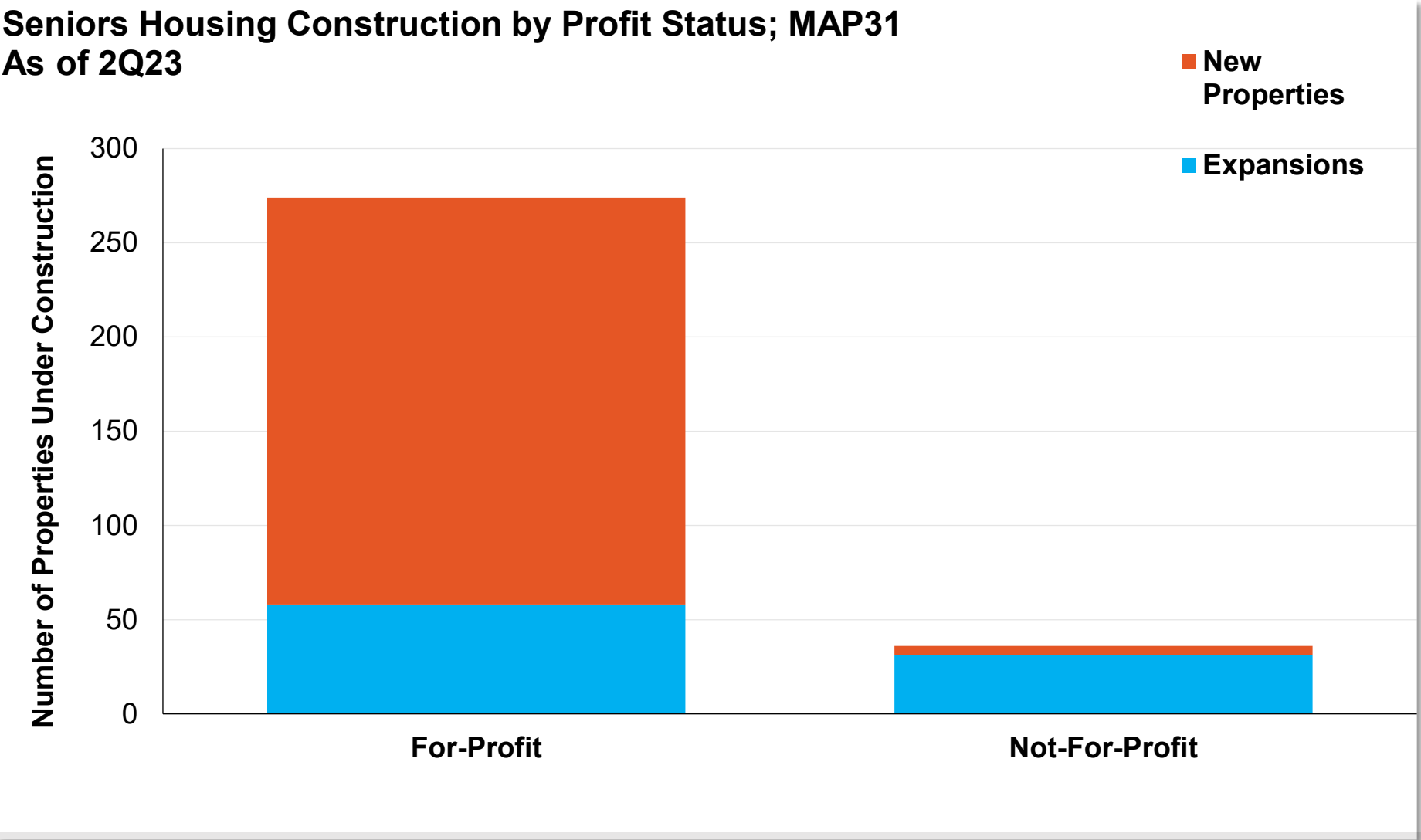
Overall Seniors Housing Inventory



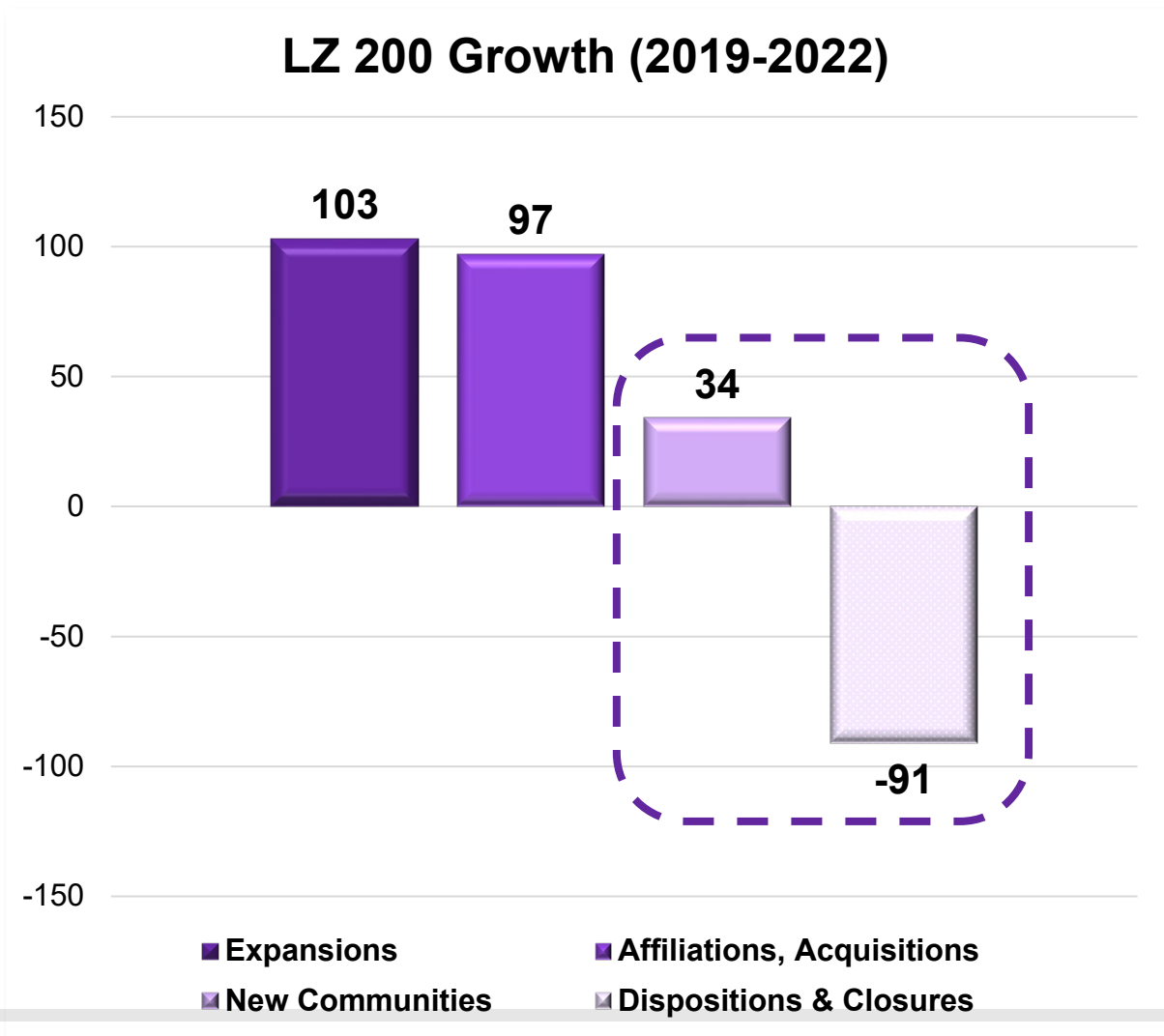
Total Not-for-Profit inventory in decline if freestanding nursing homes included

NFP vs FP Growth

Seniors Housing Construction by Profit Status; MAP31
As of 2Q23



NFP Senior Living Community Growth: LZ 200 Trends



2022 Data

- Expansions: **21**
- Affiliations, Acquisitions: **30**
- New Communities: **7**
- Dispositions & Closures: **-41**

How Does your Organization Plan to Grow in the Next Two years?

54%

Expansion



32%

Affiliation or Acquisition



18%

New Community Development



Future New NFP Locations

40

To Open in the Next Five Years



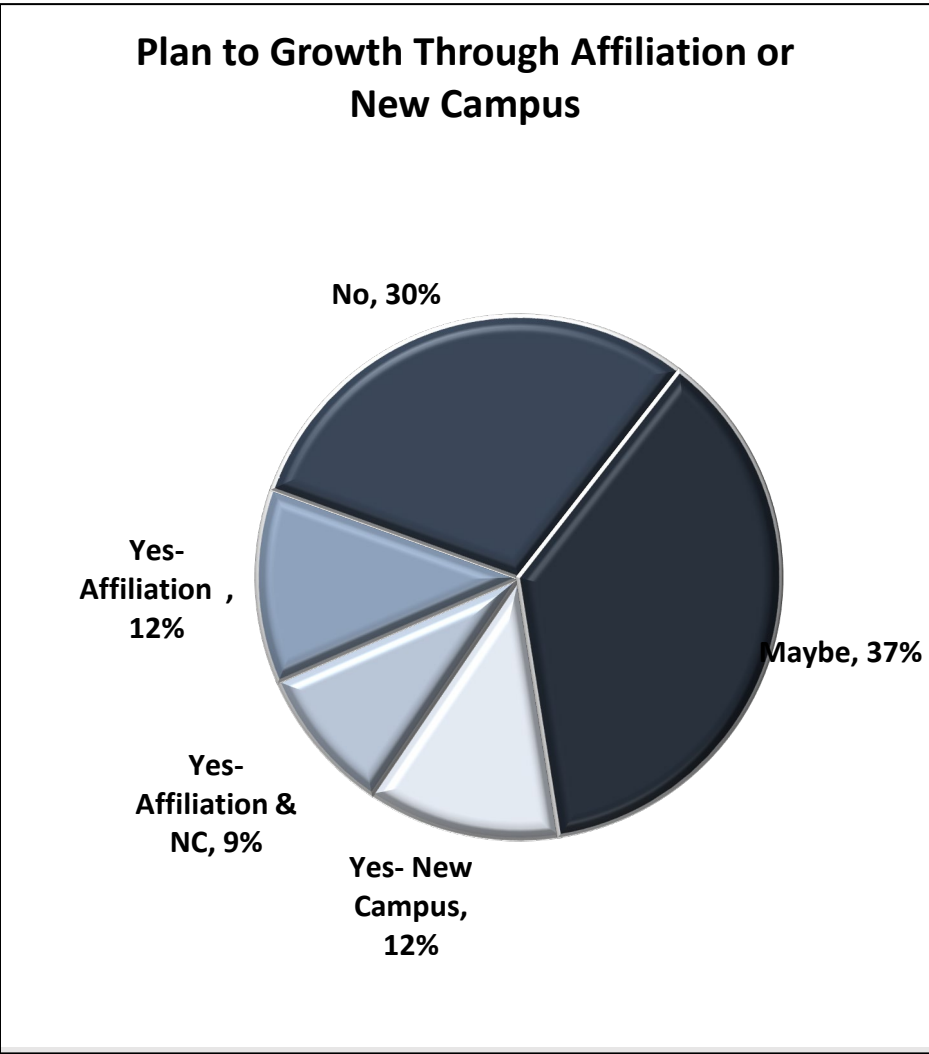
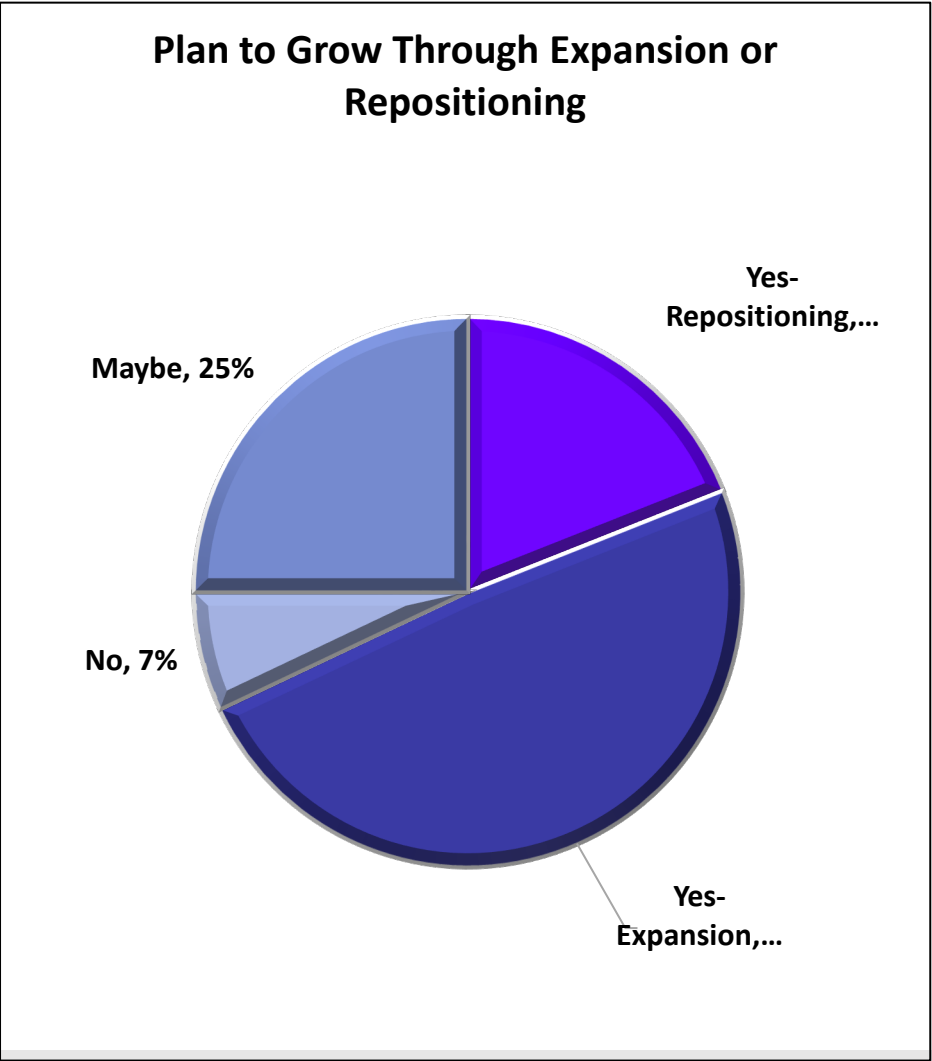
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CCRCs To Open in Next 5 Years
Traditional Definition (IL thru SN)

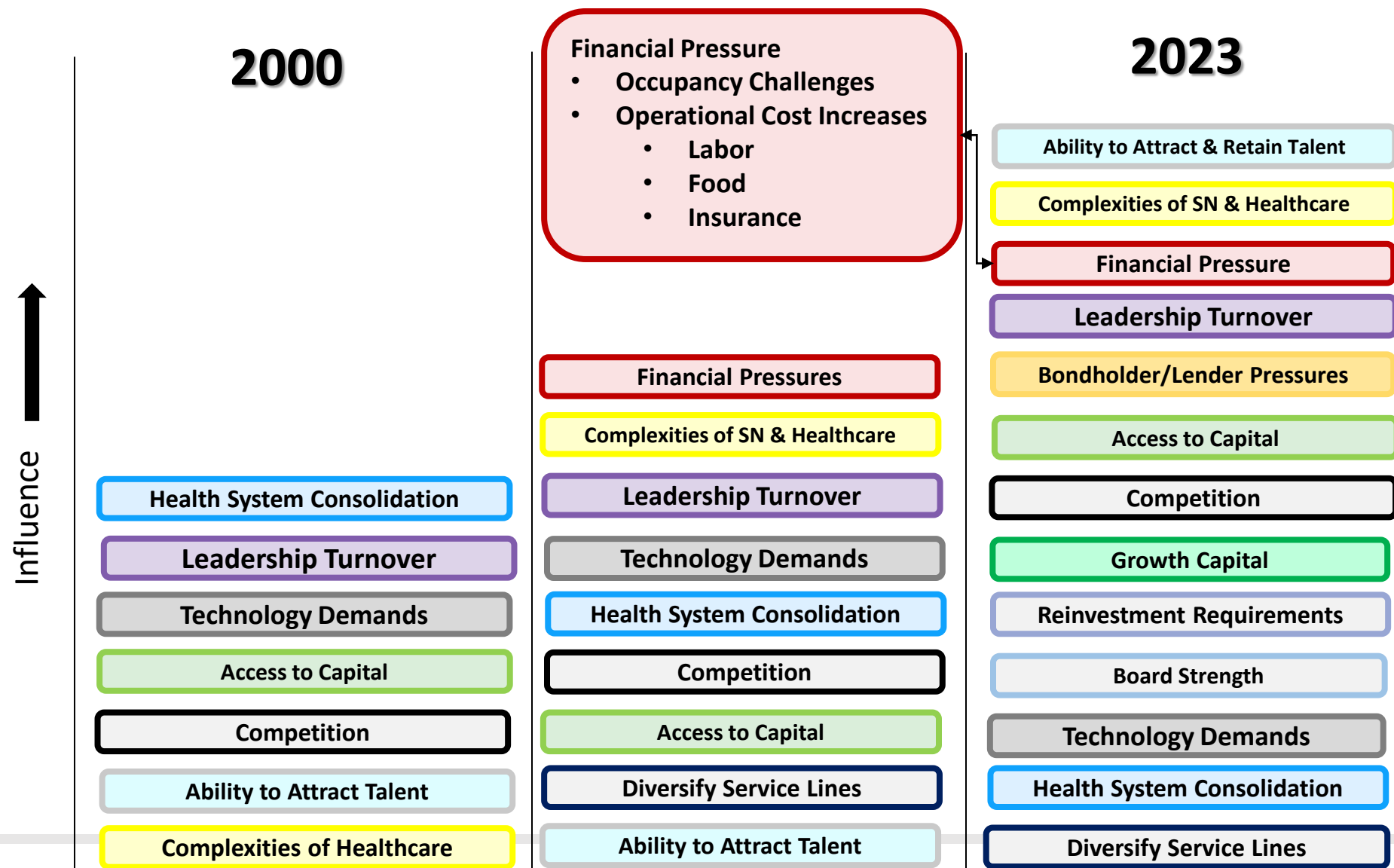
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Non-traditional CCRCs To Open in Next 5 Years
IL Only, IL/AL, Other

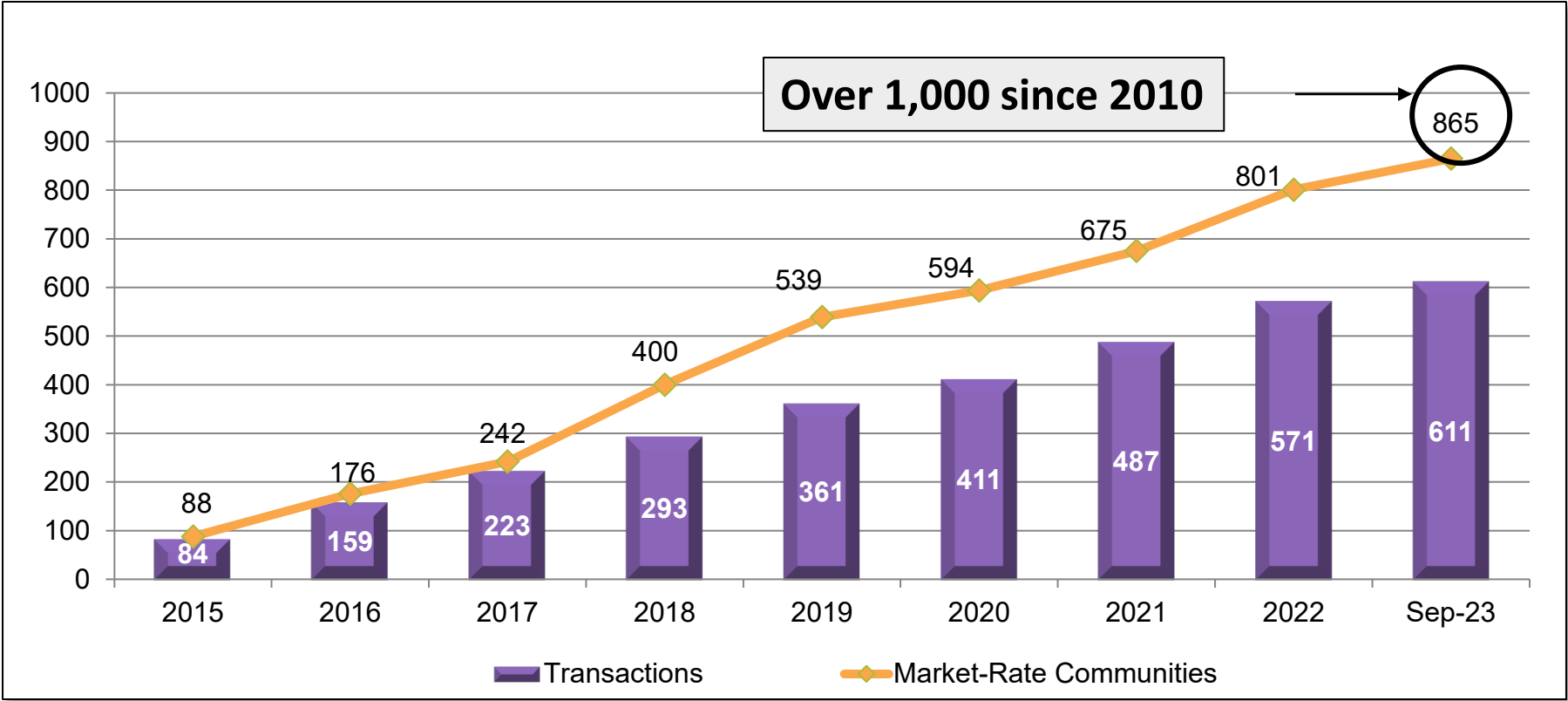
LZ 200 Projected Growth in 2023 and 2024



Drivers for NFP Senior Living Consolidation



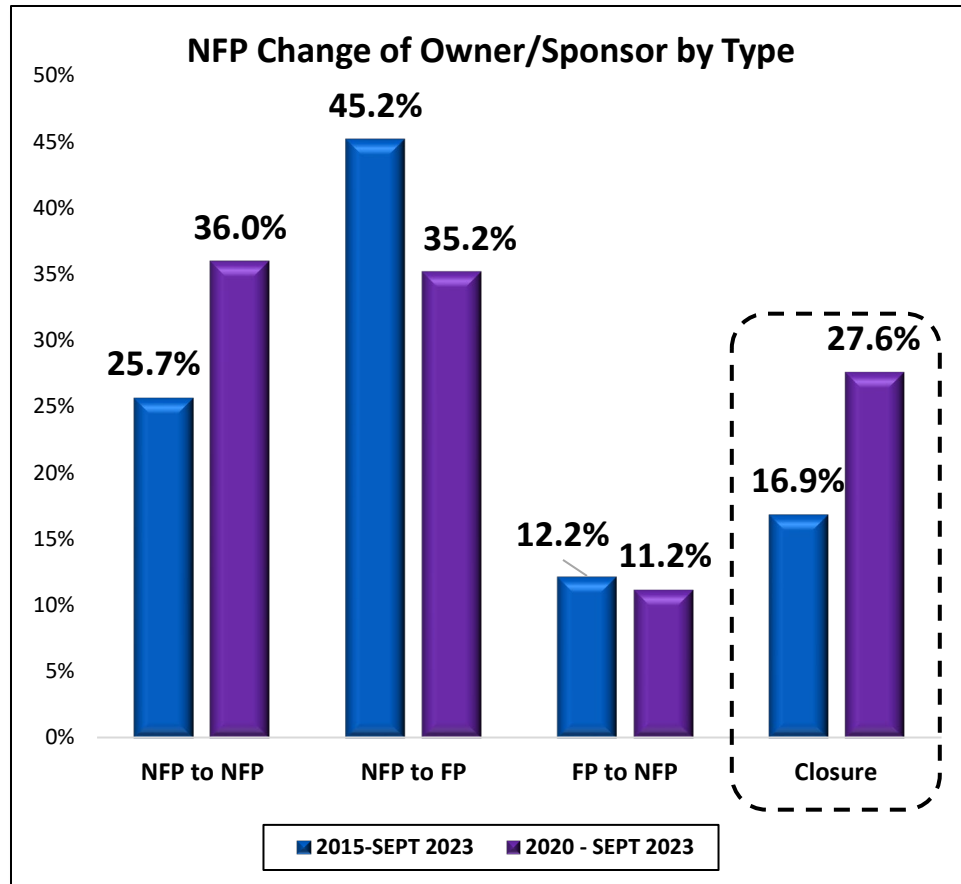
NFP Sector Consolidation: Cumulative (2015- Sept. 1, 2023)



- Since 2015, 46% have been dispositions to the FP sector (SNFs; distressed communities)
- LPCs are the most likely to stay NFP if up for ownership transition
- Increase in NFP closures the past two years

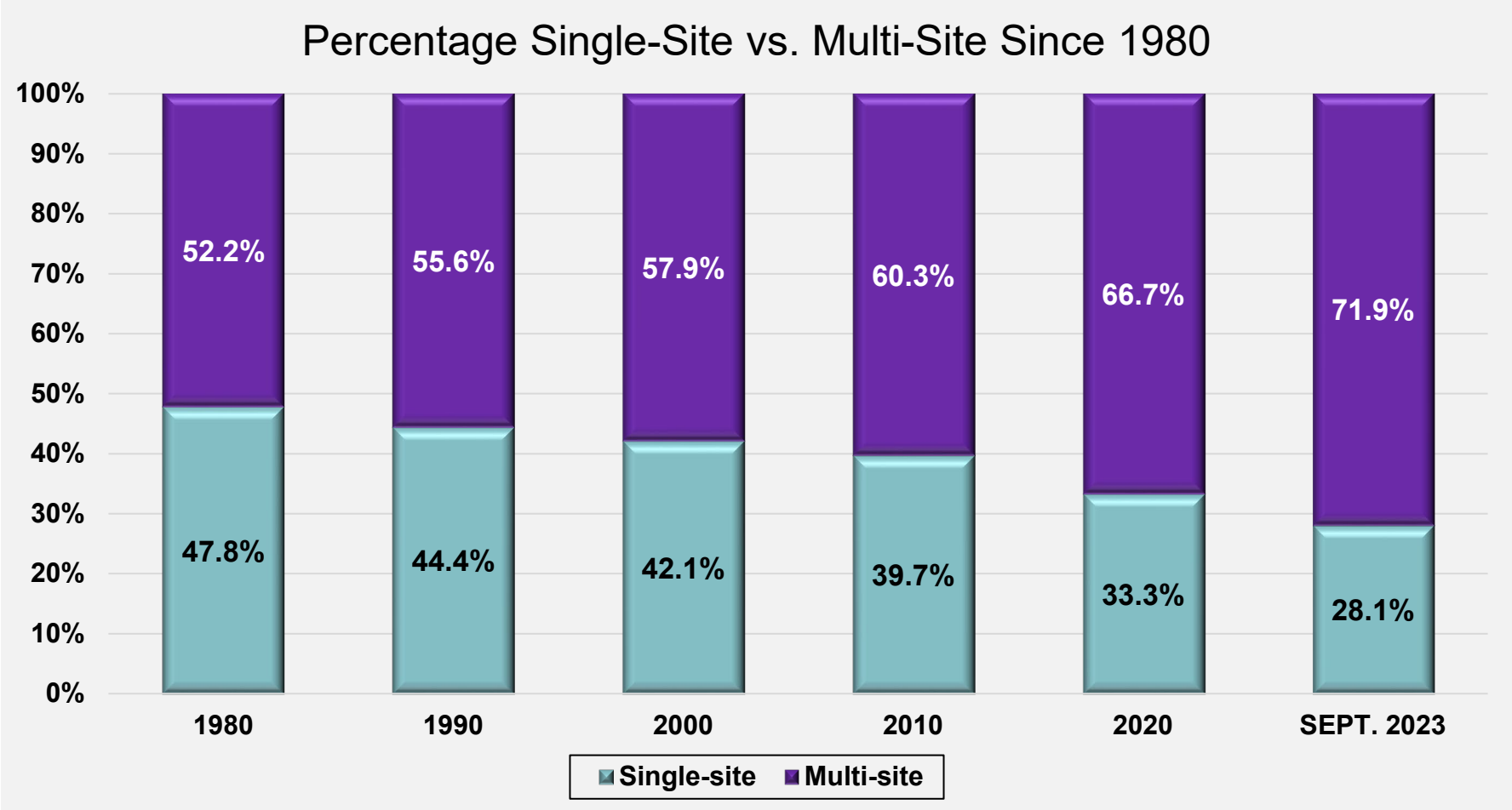
NFP Sponsorship Transitions

Pandemic Impact: 2020 –Sept. 2023



- Increasing number of NFP closures in since the onset of the pandemic in 2020
 - Nursing homes
 - CCRCs that are predominantly nursing
 - Financially distressed facilities
- Multi-site sales allow for reinvestment of the NFP commitment back into the organization to re-strengthen
 - Closures or sales of single-sites to FPs dissipate value and history of that NFP in the local community

CCRC+MLRC Sector Consolidation



NFP Only: SEPT. 2023: 62% multis, 38% singles YE 2015: 59% multis, 41% singles

Benefits of Greater Scale

WORKFORCE-RELATED

- Recruitment advantages (staff, board)
- Career ladders
- Addition of specialty positions
- Pooled labor

FINANCIAL: CAPITAL & GROWTH-RELATED

- Improved access to capital (seed capital, ratings benefits, Lines of credit)
- Upstreaming of cash to parent: strategic growth funds
- Fundraising resources
- Greater opportunities for affiliations & acquisitions

FINANCIAL OPERATIONS

- Ability to spread overhead; operational economies
- Greater purchasing power (food, tech, supplies)
- Greater ability to strategically manage revenue diversity

MARKET CONCENTRATION

- Enhanced brand recognition to consumer
- Partnership opportunities
- Enhanced hospital/health system relationships
- Continuum of products/service lines

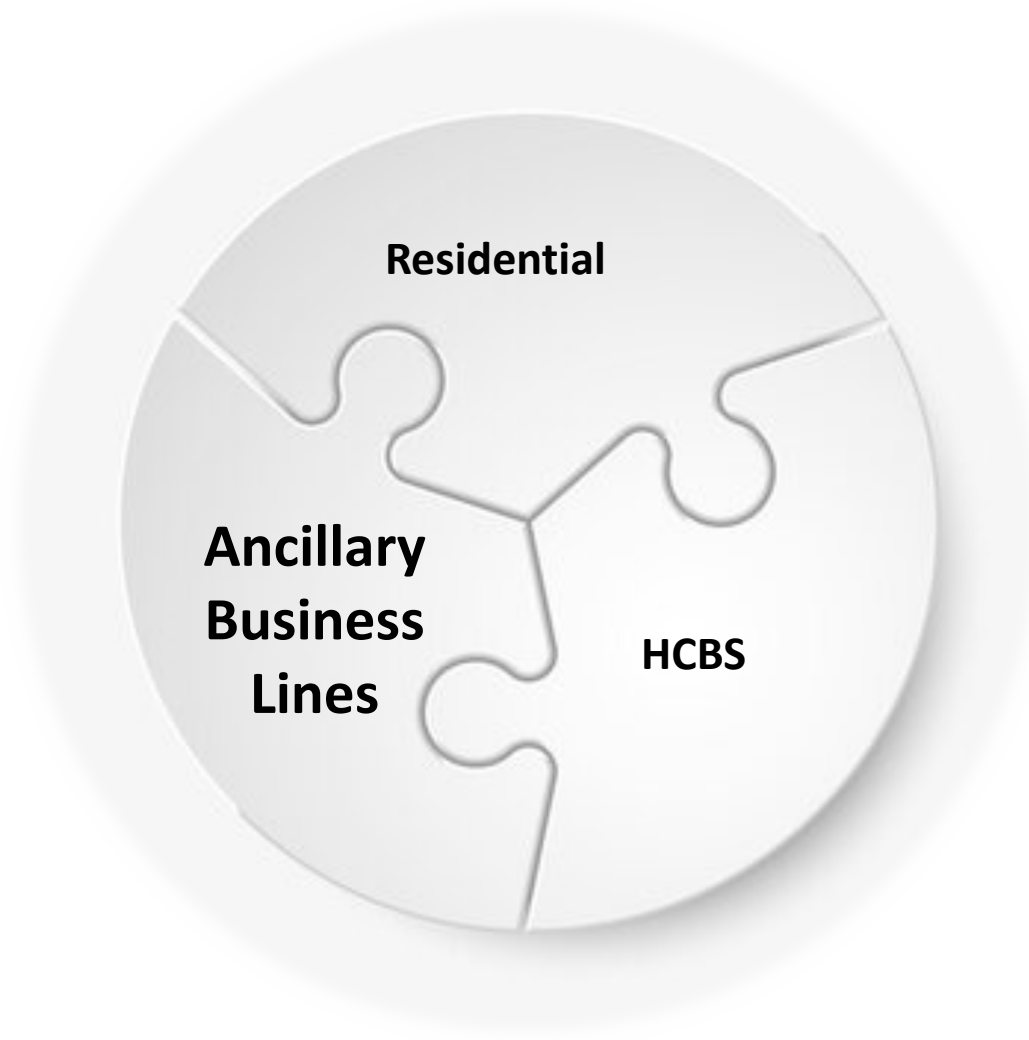
New Multi-Sites Since 2000



Since the year 2000, 30 of the LeadingAge Ziegler 200 organizations have grown from single sites into multi-site organizations

-70% through New Development
-30% through Affiliation or Acquisition

Home & Community- Based Services & Diversification



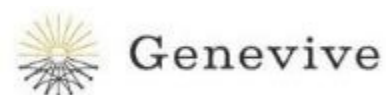
Traditional HCBS

- Home Health
- Home Care
- Hospice
- PACE
- CCaH
- Care Navigation
- Concierge

Ancillary Business Lines

- Pharmacy
- Behavioral/Mental Health
- Technology-Related
- Management Services
- Primary Care
- Rehab
- Consulting, Development Advisory

Provider Examples of Service Line Diversification



NFP Senior Living & Care: Ongoing Growth

- Continued commitment to growth among the strong, proactive NFP organizations
 - Common theme among 85+ Ziegler strategy sessions from past year
- Ziegler tracking 60+ Chief Strategy/Growth/Business Development Officers
- Strategically reinvesting, scouting new locations, affiliations and acquisition opportunities



Not-For-Profit Revenue & Service Line Diversification

THE WHY

- Financial gain: Additional revenue
- Risk management: Benefit to not having “all your eggs in one basket”
- Ancillary business lines can often support primary service lines
- Mission enhancement:
 - Ability to expand services across a larger continuum
 - Ability to serve consumers within different economic cohorts
- Fosters new, creative partnerships
 - Joint ventures are not uncommon, particularly among not-for-profit organizations

California Senior Living Industry Trends

- Senior Living Communities

- Consolidation has reduced the number of senior living organizations in California, and has led to larger systems and fewer single sites
- Life plan community space dominated by not-for-profits, but for-profits are developing new entry fee communities, which we don't see in many states. Not-for-profit growth is slow.
- Over 8,000 board & care homes in California*
- More secular and non-denominational groups
- Many downsizing/divesting skilled nursing (HCAI regulations cumbersome)

- Affordability

- Historically strong focus, with over 60% of statewide senior living units geared to affordable
- Wrap-around services an increasing focus

California Senior Living Industry Trends (cont'd)

- Home and Community-Based Services
 - Increasing focus of existing systems, especially metropolitan
 - Primarily a for-profit business in California; potential partnership or acquisition opportunity
- Development Trends
 - Numerous equity model, multi-level properties in California; few in other western states
 - Existing not-for-profit systems mostly focused on expansions of current sites; land cost and entitlement timing are huge obstacles
 - Ensō Village Green Bonds adding to the “ESG” sustainability discussion in senior living and other industries
 - State support of accessory dwelling units at any home regardless of zoning intended to support affordable options for seniors and others

Technology

Key “Smart Aging” Technology Subsectors



Ziegler Resources

New Workforce Technology Paper Coming Soon!





ZIEGLER LINK•AGE FUNDS

\$100M+

COMMITTED CAPITAL

32

PORTFOLIO
INVESTMENTS

160+

SENIOR LIVING
PROVIDER INVESTORS



EXPERIENCED

With over 60+ years combined experience, Ziegler and Link-age launched the first fund in 2014



FOCUSED

Investing in technology and service companies with innovative solutions focused on aging and post-acute service and care



STRATEGIC

Fostering collaboration and innovation between strategic investors and entrepreneurs to advance awareness and adoption of new innovations

ZIEGLER LINK•AGE FUNDS

Venture capital funds seeking to generate both financial and strategic returns for investors across the healthcare and aging services landscape by uniting providers and entrepreneurs in **ADVANCING INNOVATION** and driving independence, and improved quality and cost of care for older adults.



Generating financial returns for investors



Fostering collaboration between strategic investors and portfolio companies



Positively impacting the lives of seniors and improving the healthcare experience



Ziegler

CAPITAL :: INVESTMENTS :: ADVICE

The Ziegler Link•Age Funds are Invested in Prominent Companies in Aging and Post-Acute Care



Skilled Nursing Trends

Dynamic Time in Health Services

Enhanced Care Approaches



- Whole person Care vs Single Condition, including Mental Health and SDOH
- Advances in TeleHealth & E-Health
- Integrated Payor / Provider Care Coordination
- Population-Specific (Medicare / Medicaid eligible)
- On Campus and At-Home Primary Care

Rise in Consumerism



- Transition from Patient to Consumer
- Demand for Real-Time & Convenient Access (Virtual Care)
- Expectation of Price Transparency
- Social Communication and Engagement
- Focus on Social Inequalities
- Explosion of Empowering Digital Tools, including “Smart Aging” Technology

Market Changes & Consolidation



- Labor Shortages Across Healthcare Continuum
- Provider / Payer Consolidation
- Emerging Models including Hospital At Home and SNF at Home
- Innovative Partnerships with Changing Entrants
- Rise in Narrow Network Relationships and Products

Evolving Payment Models



- Declining Fee-For-Service Reimbursement
- Value Based Payment Models
- Inpatient to Outpatient Revenue Shifting
- Multiple CMS Pilots (Primary CareFirst, DCE) and Risk-Based Economics

Skilled Nursing Trends

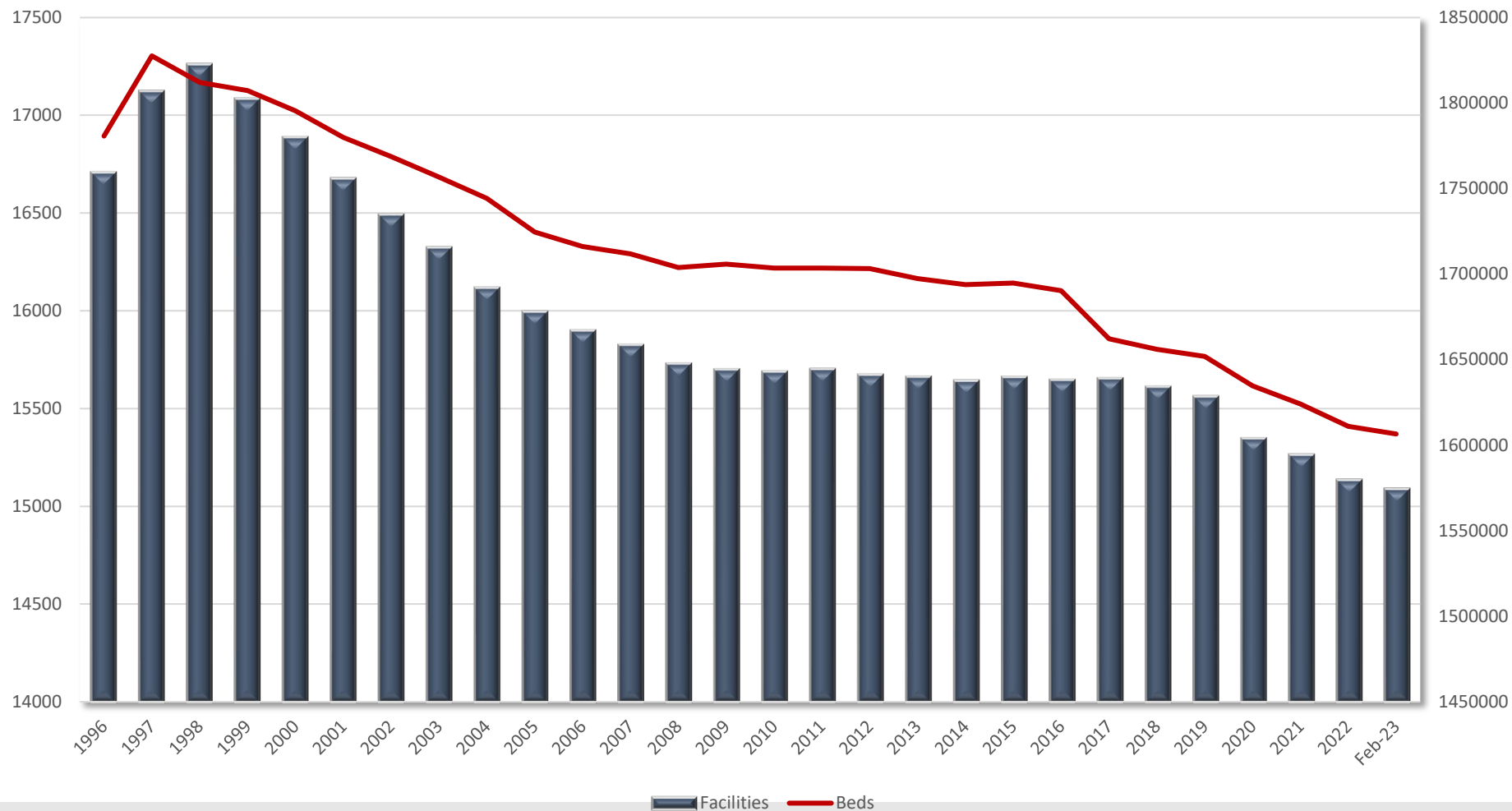
- Occupancy continues to rise, but denominator has shrunk
- *Nearly 600 nursing homes have closed during pandemic*¹
- *48% of NFPs have downsized or in process of downsizing nursing footprint*²
 - NFP rotation towards IL-centric continuum settings
- Multiple headwinds: workforce (new staffing mandate among others), reimbursement, hospital referral patterns (skip the SNF), consumer preferences
- Regulatory environment difficult
- Creation of specialty care units for higher reimbursement and niche demand
- **Need to rethink model: set of services rather than a place?**

New SNF Staffing Mandate

- Need to hire an estimated **102,154** additional full-time employees (80,077 nurse aides and 22,077 RNs).
- Would cost nursing homes approximately **\$6.8 billion per year** – higher than the \$4 billion per year estimate from the Centers for Medicare and Medicaid Services (CMS).
- 94% currently not meeting at least one of the three proposed staffing requirements
 - 36% of those are meeting NONE of the 3 requirements
- If nursing homes are unable to increase their workforces to meet these new requirements, more than 280,000 nursing home residents, or nearly one-quarter of all residents, could be impacted by census reductions.



Total Number of Skilled Nursing Properties and Certified Beds 1996 – 2023



Medicare Advantage

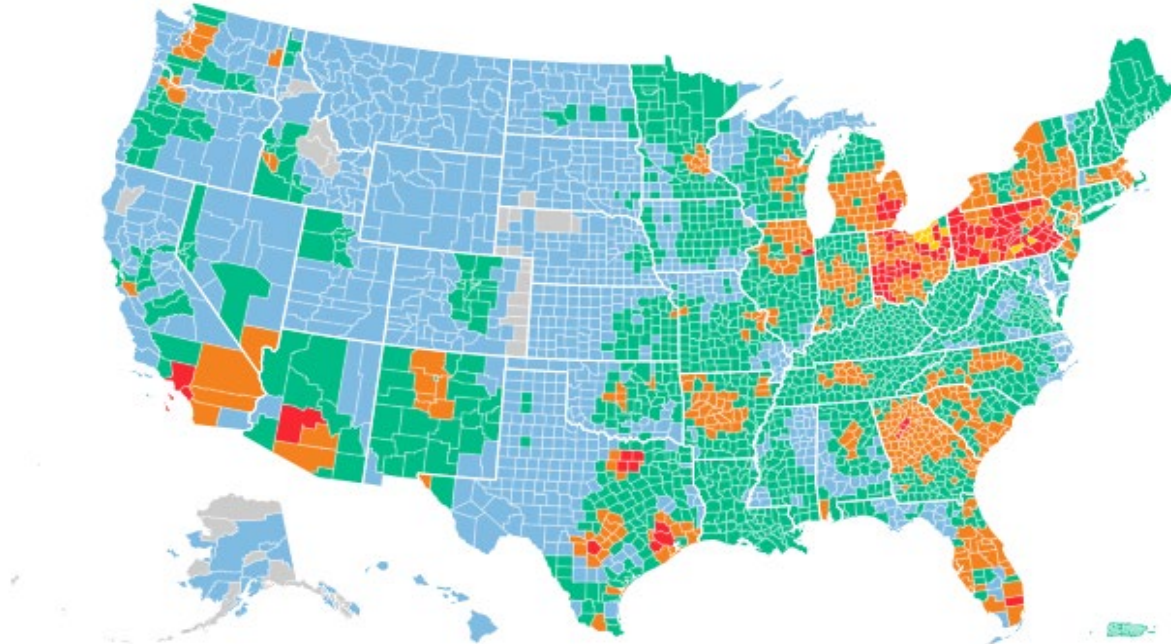
Figure 5

About half of all Medicare beneficiaries (in 19 percent of counties) have more than 40 Medicare Advantage plans available where they live in 2023

Click on the buttons below to see number of Medicare Advantage plans across years:

2018 2023

0 plans (40 counties) 1-20 plans (986 counties) 21-40 plans (1572 counties) 41-60 plans (511 counties)
61-80 plans (104 counties) 81 or more plans (9 counties)



NOTE: Excludes SNPs, EGHPs, HCPPs, PACE plans, cost plans, and MMPs.
SOURCE: KFF analysis of CMS Landscape files for 2023. • PNG

KFF

- The average Medicare beneficiary can choose from 43 Medicare Advantage plans in 2023, up from 38 in 2022 and 33 in 2021
- In total, there are 3,998 MA plans available nationwide, a 6% increase from 2022
- The number of Special Needs Plans has more than doubled since 2018, standing at 1,284 for 2023
- *Increasing numbers of providers moving to risk-based models*

Capital Markets



Hot Topics in Today's Credit Markets

- Profitability – refocus on the basics; track record and performance history are critical topics; capital is scarce
- Assessing the future of skilled nursing for varied organizations, and its impact on both profitability and consumer demand
- Defaults leading to some low bond investor recoveries and also jeopardizing resident refunds – potential resultant regulatory risk
- Higher rates and inverted yield curve
 - Limited true-yield sectors in the municipal market; senior living still qualifies
 - Creative and more flexible couponing and call features; premium bonds are common
 - Interesting time for derivatives
 - Great time to make money on conservative investment portfolios
 - Higher return on invested bond proceeds lowers borrowing cost

Operational Focus Areas

- Occupancy has recovered for many, especially in independent living, but some are still struggling
 - Borrowers with fewer nursing beds are seeing a quicker recovery
 - More borrowers eliminating skilled nursing from the continuum, reducing, or converting to private rooms
- Finding adequate staff remains an issue but is easing in some markets; reliance on agency pools (decreasing for many) has been a key profitability factor. Some deployment of tech solutions for labor.
- ERC federal stimulus dollars are still out there for those who haven't partaken and may qualify



Operational Focus Areas (cont'd)

- Balancing inflation against elasticity of monthly fees
- Risk diversification is key – are you or can you be #1 or #2 in your market(s)?
 - For single sites, look to diversify revenue sources
 - Seek margin improvement opportunities by business line
- Be realistic about core competencies and shore up areas where you don't excel. Great opportunity for JVs and partnerships.
- Will be important to offset/plan for insurance premium increases



Commercial Property Insurance Premiums

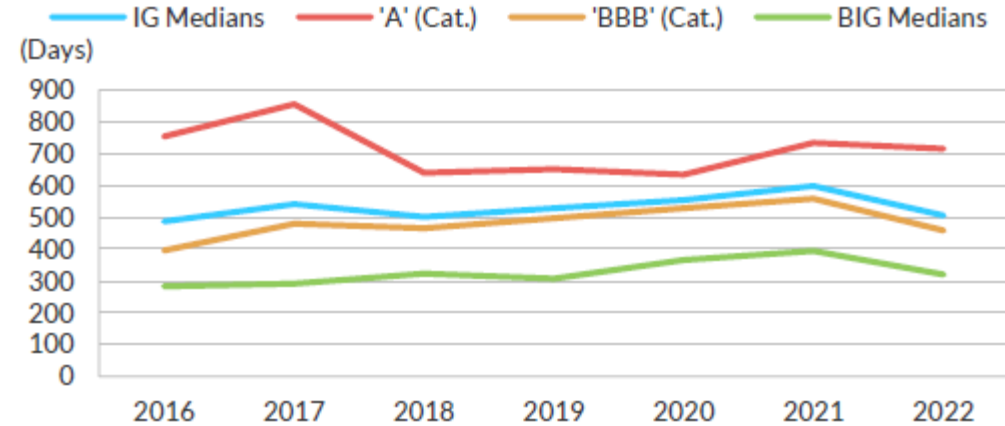
- Commercial property premiums spiked 20.4% in Q1 2023, first time above 20% since 2001.
- Causes include inflation in construction/repair costs in combination with natural disasters like Hurricane Ian, as well as supply chain issues with replacement materials.
- 85% of respondents also reported decreased underwriting capacity for commercial property and “significant terms and conditions changes, larger deductibles, more significant exclusions, and reduced coverage.”



Fitch Rating Medians – 2022 data

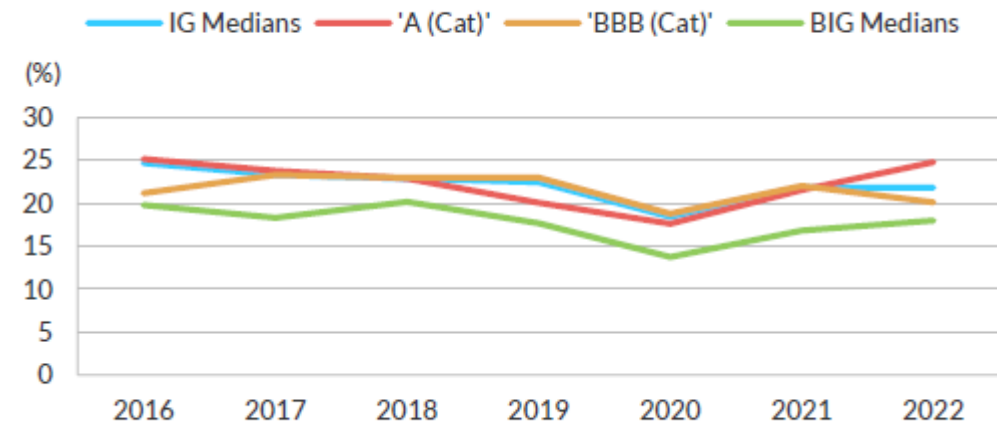
- Liquidity declined on average as most stimulus funding ended and capital markets were volatile.
- Expect higher short-term rates to support liquidity growth when 2023 results are in.
- NOM-A post-COVID reflecting occupancy improvements and some ability pass on inflationary costs to residents
- Negative factors including labor cost pressures, including agency staffing

Days' Cash on Hand



Source: Fitch Ratings

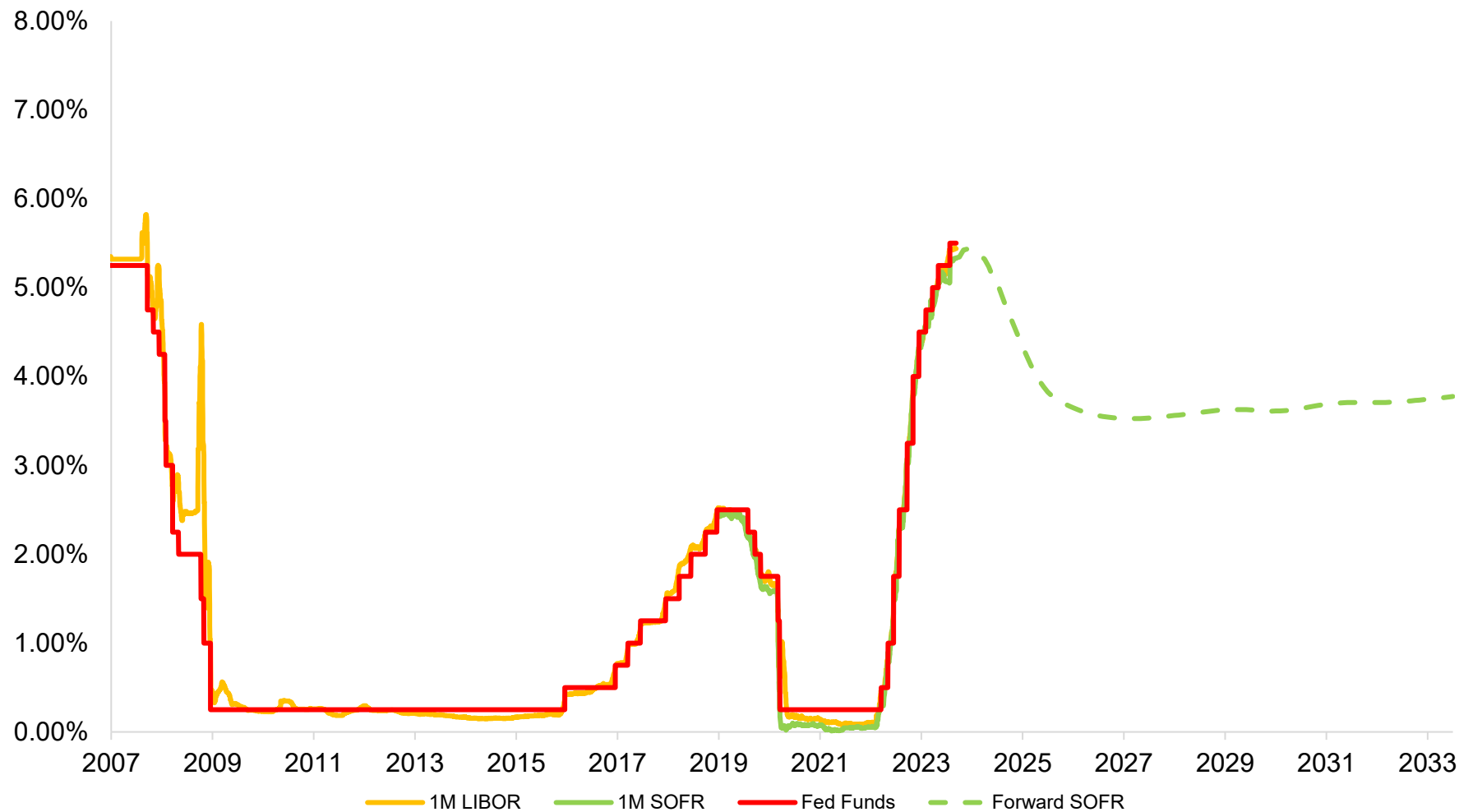
Net Operating Margin – Adjusted



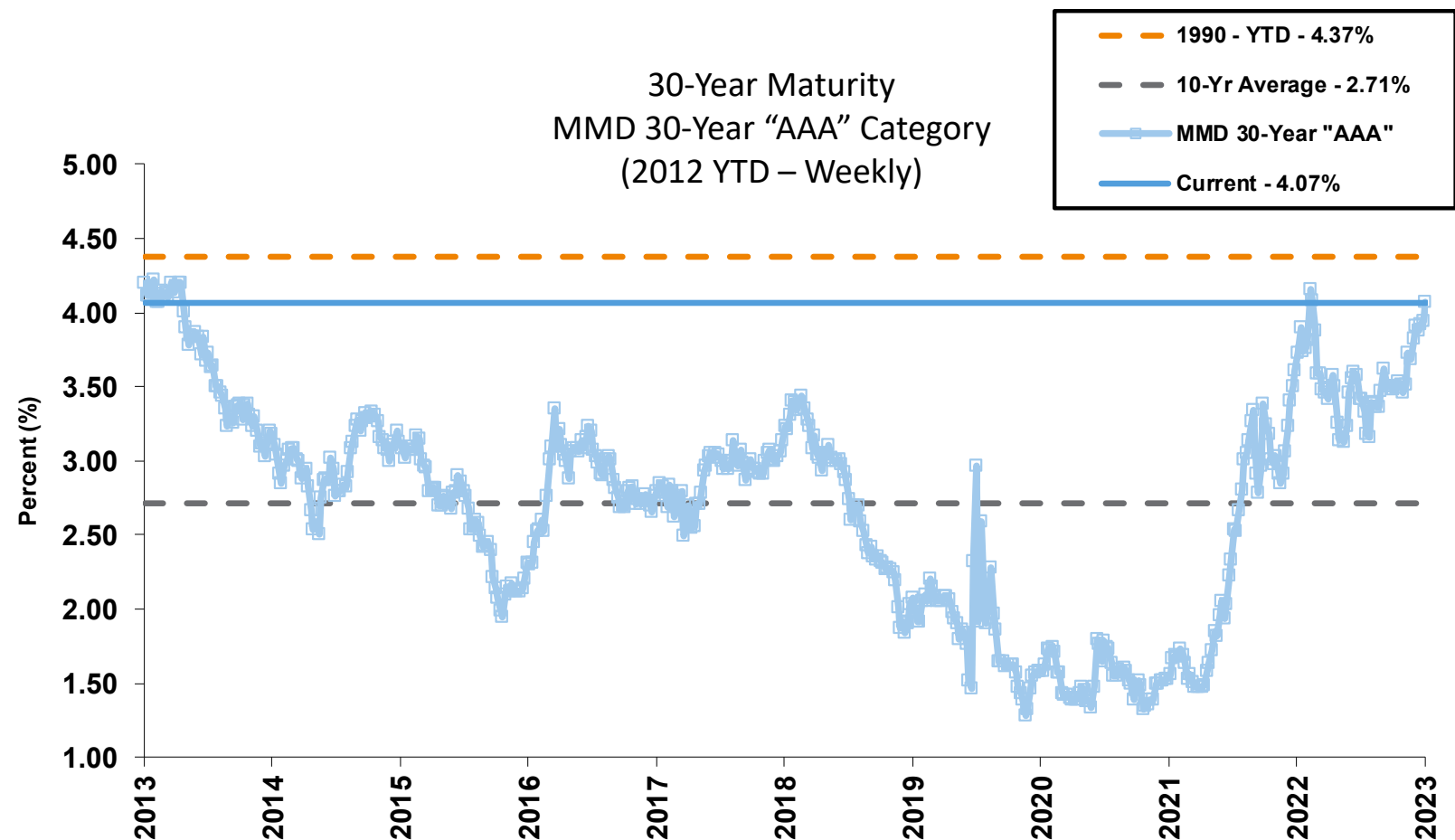
Source: Fitch Ratings

Source: Fitch Ratings, 2023 Median Ratios for NFP LPC (data as of 2022)

Historical and Projected Bank/Variable Rates



Historical Senior Living Fixed Rate Index



Financing Projects: Challenges Today

- Higher borrowing rates
 - Drawdown Bonds: less important with investment rates up
 - Reducing par amount where possible
 - Paying interest and issuance costs out of pocket vs. financing
 - Maximizing temporary debt – covering working capital out of pocket
 - Shorter call protection
- Rising construction costs
 - Building in flexibility to discount pricing, provide incentive compensation to sales
 - Pre-purchase materials or lock prices

Questions & Discussion

ABOUT ZIEGLER

- Ziegler is a privately-held investment bank, capital markets and proprietary investments firm
- A registered broker dealer with SIPC & FINRA
- Ziegler provides its clients with capital raising, strategic advisory services, equity & fixed-income trading and research
- Founded in 1902, Ziegler specializes in the healthcare, senior living and educational sectors as well as general municipal finance

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