

# CASE STUDY

## MONARCH FUNDING IV

\$2,200,000 | August 1, 2019 | Foley, MN



FINANCED RIGHT®



### HJ SIMS PROVIDES ACQUISITION FINANCING FOR HEALTHCARE COMMUNITY IN MINNESOTA

#### PARTNERED RIGHT®

Monarch Healthcare Management (“Monarch”) is a privately-held healthcare owner and operator specializing in the acquisition and management of high-quality skilled nursing facilities. Headquartered in Mankato, Minnesota, Monarch operates 40 skilled nursing and assisted living facilities located primarily in Minnesota, with one facility in Wisconsin. As a care-focused operator, Monarch’s mission is to change the way short-term rehabilitation and long-term healthcare are delivered, striving to put residents, tenants, and families first through its commitment to Innovative Care and 5-star Customer Service.

Monarch has grown through a series of strategic acquisitions, with the first completed in July 2015. Monarch has a strong track record of improving financial performance at facilities it has acquired through a combination of driving census, improving quality mix, and reducing expenses through the implementation of more favorable vendor and third-party contracts.

HJ Sims, in partnership with a national bank (the “Bank Partner”), has previously completed three financings for Monarch. In December 2017, HJ Sims and the Bank Partner provided a \$22.6 million high-leverage, first-mortgage loan to fund the acquisition of a portfolio of two healthcare campuses. In May 2019, HJ Sims provided an advance to an existing first-mortgage loan on a subordinate basis to fund and “Earn-out”, increasing the first-mortgage loan to \$7.325 million. In June 2019, HJ Sims and the Bank Partner provided a \$12.75 million high-leverage, first-mortgage loan to fund the acquisition of a portfolio of three healthcare campuses.

#### STRUCTURED RIGHT®

Monarch reached an agreement to acquire a healthcare community in Minnesota (the “Community”). Once again, HJ Sims and the Bank Partner proposed a high-leverage, unitranche first-mortgage loan to fund the acquisition. The proposed loan combined two tranches of debt into a single debt instrument (the “A/B Loan”) with the Bank Partner providing “Tranche A” of the loan on a priority basis and HJ Sims providing “Tranche B” of the loan on a subordinate basis. From the perspective of the borrower, the loan functions as a single debt obligation under a single loan agreement and security

#### Monarch Funding IV At A Glance

Partnered Right®	Structured Right®	Executed Right®	Financed Right®
<ul style="list-style-type: none"><li>» Monarch specializes in the acquisition and management of high quality skilled nursing facilities</li><li>» Owns and operates 40 skilled nursing and assisted living facilities in Minnesota and Wisconsin</li><li>» HJ Sims previously partnered with Monarch on three financings completed in December 2017, May 2019, and June 2019</li></ul>	<ul style="list-style-type: none"><li>» HJ Sims partnered with a national bank to propose unitranche financing (or “A/B Loan”) for the acquisition</li><li>» The A/B Loan functions as a single loan with a single servicer</li></ul>	<ul style="list-style-type: none"><li>» The loan provides high leverage financing limiting the need to raise additional capital</li><li>» A 2-year, interest-only period reduces debt expense as Monarch assumes management of the Community and implements a performance improvement plan</li></ul>	<ul style="list-style-type: none"><li>» HJ Sims successfully placed corporate taxable bonds to fund Tranche B of the A/B Loan</li><li>» The loan closed on August 1st, meeting the timing expectation of the client</li></ul>

# CASE STUDY

## MONARCH FUNDING IV *continued*



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package. An agent and loan servicer acts on behalf of both lenders for the entire A/B Loan, simplifying the payment and reporting processes required with multiple lenders.

### EXECUTED RIGHT®

Monarch found the A/B Loan attractive for the acquisition as it provided higher leverage compared to a conventional bank loan, allowing Monarch to avoid raising unsecured subordinate debt at a higher cost of capital or diluting its ownership in the Community from taking on additional equity partners. In addition, the loan was structured with a two-year, interest-only period and can be repaid any time after two years, allowing Monarch to limit debt service expense over the near-term as it implements performance improvement measures, while providing flexibility to refinance any time after the interest-only period. The A/B Loan provided approximately 89% of the total cash transaction costs associated with acquisition.

### FINANCED RIGHT®

HJ Sims formed a new entity, Monarch Funding IV, LLC (the “Sims Issuer”), to issue taxable bonds to fund the Sims portion of the loan. HJ Sims successfully sold subordinate first-mortgage taxable bonds through its Private Client Group to high-net-worth accredited investors to fund its portion of the \$7.9 million A/B Loan. The loan closed on August 1, 2019, meeting Monarch’s timing expectations and agreement with the seller. The financing marks HJ Sims’ fourth successful closing with Monarch.

*“HJ Sims has been instrumental in funding the growth of our company. Having Sims as a trusted capital partner has enabled us to focus on providing innovative care and 5-star customer service to our residents and their families.”*

— Josh Legum, Chief Executive Officer

**For more detailed information on how Monarch Funding IV was Financed Right® by HJ Sims, please call or email:**

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*HJ Sims is a member of FINRA, SIPC and is not affiliated with the financed property.*