

# CASE STUDY

## MONARCH FUNDING III

\$2,000,000 | May 1, 2019 | Multiple Locations, MN



FINANCED RIGHT®



## HJ SIMS PROVIDES ACQUISITION FINANCING FOR THREE-PROPERTY HEALTHCARE PORTFOLIO 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 32 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 previously partnered with Monarch twice before, providing financing in December of 2017 to fund the acquisition of a portfolio of two healthcare campuses and again in May of 2019 to fund an “Earn-out” for a successful turnaround acquisition. As part of the 2017 financing Sims, along with a bank partner, provided a \$22.6 million high-leverage, first-mortgage loan to fund the acquisition. For the 2019 financing, HJ Sims provided an advance to an existing first-mortgage loan on a subordinate basis, increasing the first-mortgage loan to \$7.325 million.

### STRUCTURED RIGHT®

Monarch reached an agreement to acquire a portfolio of three healthcare campuses consisting of over 250 assisted living and skilled nursing beds (the “Portfolio”). HJ Sims partnered with a national bank (the “Bank Partner”) to propose a high-leverage, unitranche first-mortgage loan to fund the acquisition of the Portfolio. 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

### Monarch Funding III 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>» Monarch owns and operates 32 skilled nursing and assisted living facilities in Minnesota and Wisconsin</li><li>» HJ Sims partnered with Monarch twice before to provide financing in December 2017 and May 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 Portfolio and implements 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 May 31st, meeting the timing expectations of the client</li></ul>

# CASE STUDY

## MONARCH FUNDING III *continued*



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under a single loan agreement and security 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 Portfolio from taking on additional equity partners. In addition, the loan was structured with a two-year, interest-only period and can be repaid anytime 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 anytime after the interest-only period. The A/B Loan provided approximately 85% of the total cash transaction costs associated with acquisition.

### FINANCED RIGHT®

HJ Sims formed a new entity, Monarch Funding III, LLC (the “Sims Issuer”), to issue taxable bonds to fund the Sims portion of the loan. 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 \$12.75 million A/B Loan. The loan closed on May 31, 2019, meeting Monarch’s timing expectations and agreement with the sellers. The financing marks Sims’ third 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 III 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.*