

CASE STUDY

MONARCH FUNDING II

\$2,100,000 | May 1, 2019 | Faribault, MN



FINANCED RIGHT®

HJ SIMS PROVIDES EARN-OUT FINANCING FOR SUCCESSFUL TURNAROUND 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 two facilities 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 in December of 2017 to provide financing for the acquisition of a portfolio of two healthcare campuses totaling 229 assisted living and nursing beds in Minnesota. HJ Sims, along with a bank partner, provided a \$22.6 million high-leverage first mortgage loan to fund the acquisition. Following the acquisition, Monarch successfully implemented a number of operational improvements, improving annualized earnings before interest, taxes, depreciation and amortization (“EBITDA”) by over 100% compared to the 12-month period prior to assuming operations.

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In August of 2018, Monarch acquired Pleasant Manor (the “Community”) a healthcare community located in Minnesota consisting of 36 assisted living beds and 65 skilled nursing beds for a total of 101 beds in two connected buildings. The acquisition was financed by a combination of sponsor equity and a first mortgage loan, which was provided by the same bank HJ Sims partnered with for Monarch’s December 2017 acquisition. The terms of first mortgage loan included a provision for an “Earn-out” to be funded by HJ Sims as an additional advance on a subordinate basis (“Tranche B Funding”) once certain performance and valuation thresholds were achieved at the Community.

Monarch Funding II At A Glance

Partnered Right®	Structured Right®	Executed Right®	Financed Right®
<ul style="list-style-type: none">» Monarch specializes in the acquisition and management of high quality skilled nursing facilities» Operates 32 skilled nursing and assisted living facilities in Minnesota and Wisconsin» HJ Sims previously partnered with Monarch, providing acquisition financing in 2017	<ul style="list-style-type: none">» Monarch acquired a 101 bed assisted living and nursing facility in August 2018» Financing for the acquisition included a provision for an “Earn-out” once certain performance and valuation thresholds were met	<ul style="list-style-type: none">» Monarch successfully implemented numerous operational improvements at the Community, leading to a significant improvement of profitability and value» The \$2.1 million Earn-out provides capital for Monarch to pursue additional acquisition opportunities	<ul style="list-style-type: none">» HJ Sims successfully placed \$2,100,000 of corporate taxable bonds to fund the Earn-out» The loan closed on May 1, 2019 approximately 9 months after Monarch acquired the Community

EXECUTED RIGHT®

In the months following the acquisition, Monarch successfully implemented numerous operational improvements at the Community, which along with announced Medicaid rate increases in Minnesota, provided for considerable improvement to EBITDA and value, meeting the thresholds required to fund the Earn-out under the terms of the loan. The advance totaled \$2.1 million dollars, increasing the balance of the first mortgage loan to \$7.325 million. Proceeds from the Earn-out funded an equity dividend, providing Monarch with capital to pursue additional acquisition opportunities.

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HJ Sims formed a new entity, Monarch Funding II, LLC (the “Sims Issuer”), to issue taxable bonds to fund the Sims’ portion of the loan. Through its Private Client Group, HJ Sims sold \$2.1 million of subordinate first mortgage taxable bonds to high-net-worth accredited investors. The financing closed on May 1, approximately nine months after Monarch acquired the Community.

**For more detailed information
on how Monarch Funding II was
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