CASE STUDY

UNITED CHURCH HOMES

$32,000,000 | June 2015 | Marion, OH

HJ SIMS

FINANCED RIGHT®

ACQUISITION FINANCING & REFINANCING FOR OHIO MULTI-SITE SENIOR LIVING PROVIDER

BACKGROUND

United Church Homes ("UCH") is a multi-site senior services provider with nine senior care campuses in Ohio with a total of 1,240 units/beds (314 independent living units, 193 assisted living units and 773 skilled nursing beds). UCH also manages 58 affiliated/unaffiliated affordable housing facilities and two independently owned senior communities in OH and 12 other states across the U.S. In aggregate, UCH serves over 5,000 people in 69 residential and care settings in 13 states. Founded in 1916, UCH is affiliated with United Church of Christ and is headquartered in Marion, OH, about 45 miles north of Columbus.

"This was our first opportunity to work with HJ Sims on our recent acquisition financing project. They facilitated the competitive process resulting in a very attractive financing package that exceeded our expectations. The Sims team brings expertise and execution together in a way that built board confidence and support."

— Rev. Kenneth Daniel, President & CEO, United Church Homes, Marion, OH

CHALLENGES

In 2014, UCH was presented with multiple attractive growth opportunities involving the acquisition of three OH-based senior living communities in two separate transactions. UCH had strong interest in these acquisitions as they offered attractive acquisition prices and opportunities for growth in Central Ohio, expansion opportunities in Southeastern Ohio and a desirable unit/bed mix (75% independent/assisted living and 25% skilled nursing across the three communities). However, UCH faced several challenges.

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The first challenge centered around determining the optimum ownership (and obligor) structure. Should each of the acquired communities stand on its own or be integrated into the existing UHC Obligated Group of six UCH-owned entities?

Sims analyzed the debt capacity of each of the acquired communities, both on a stand-alone basis and a UCH obligated Group basis. Debt capacity was calculated on recent historic performance as well as near-term projections, assessing capacity for UCH's existing communities in aggregate as well as for the acquired communities on a stand-alone basis. Further, debt capacity was determined under several methodologies to reflect financing requirements (whether via bank or bond financing) as well as covenant thresholds contained in UCH's existing bank financing. These calculations also assessed the impact on debt capacity under alternate sources of financing, bank or bond debt, reflecting differing interest rates (including variable and fixed modes), credit commitment periods and debt amortization and maturity periods. While UCH sought to maximize its debt capacity, it desired to limit its exposure to variable interest rates. Lastly, beyond the financing needs for the proposed acquisitions (and related capital expenditures), UCH sought to preserve debt capacity for future capital needs anticipated at several of its existing senior living communities.

A second challenge was UCH's ability to finance the acquisitions under the terms of its existing bank financing covenants, using a combination of equity with additional debt. Among the requirements contained in UCH's existing financing were limitations on undertaking acquisitions and on incurrence of additional debt subject to complying with debt service coverage, liquidity and loan-to-value covenants.

A final challenge was the timing to complete the acquisitions. Within a short time frame, UCH and Sims had to parallel process bank and bond alternatives as well as stand-alone and obligated group structures.

EXECUTION

UCH engaged HJ Sims in September 2014 finance the acquisitions. Key elements of Sims' work with UCH included: **1**) Evaluation modeling to confirm that the acquisitions prices were financially accurate and in line with similar opportunities within the market area; **2**) undertaking the detailed debt capacity analysis described above, including evaluating capacity under various constraints and alternate sources of financing; **3**) identifying plan of finance options, focused particularly on the use of bank financing, whether through expanded financing from PNC, UCH's existing bank, or from one or more new bank partners and undertaking a full solicitation process to identify the available options; **4**) evaluating the bank financing proposals and assisting in follow-up discussions and negotiation with prospective banks, focused on interest rate and total cost of financing, credit commitment period and key financing provisions, including interplay with UCH's existing debt, security and covenants provisions; and **5**) with respect to UCH's existing debt, the potential benefits/implications of refinancing the debt as part of the overall financing.

UCH and Sims worked together effectively to accomplish the key items outlined above. This included confirming the range of UCH's debt capacity and its ability to comfortably undertake the acquisitions and related financing, while retaining sufficient capacity for future capital needs. Further, supplementing PNC's continuing interest in working with UCH, Sims led a full bank financing solicitation process which yielded multiple competitive financing proposals to fund the acquisitions as well as refinance UCH's existing debt.

As part of this process, Sims prepared a detailed summary of the proposals along with supporting analysis to compare the proposals and model the impact on the acquisition financing and UCH's total debt service. Sims conducted extensive follow-up the banks to address particular questions/issues relating to the proposals and assisted UCH in its communication with PNC. Finally, beyond the acquisition financing, Sims monitored the potential benefit to UCH of refinancing its existing debt and ultimately identified the opportunity for UCH to realize debt service savings under a refinancing.

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RESULT

With the assistance of Sims and the project-financing team, UCH successfully completed the financing of two of the three acquisitions in late June 2015, with the third acquisition pending subject to receipt of one remaining approval.

UCH implemented attractive bank financing, continuing its relationship with PNC for the full financing need, combining the desired acquisition financing (and related capital needs) with the refinancing of its existing debt at a lower cost. Additional attractive features of the financing included a longer credit commitment period for the new capital financing and a reduction in a key covenant relating to the incurrence of additional debt, both providing UCH with greater future flexibility. Additionally, while not initially a focus of the financing proposal from PNC, Sims identified the opportunity for UCH to reduce the cost of financing on its existing debt, based on the level of interest rates proposed by PNC for the acquisition financing.

Financing totaled $32 million, comprised of $12 million of refinancing (tax-exempt fixed rate via swap) with a 7 year remaining term (2.45%) and $20 million of acquisition (and related capital) financing, combining tax-exempt taxable debt and a combination of variable and fixed rates, with the fixed rate achieved via swap (tax-exempt 10 year fixed rate 3.08% - taxable 5 year fixed rate 3.01%). The final maturities for the acquisition financing include a combination of shorter term (5 years) and longer term (25 years). The acquisition debt was structured in a way that allowed the taxable portion of the financing to be paid in full prior to principal amortization of the tax-exempt portion staring, therefore paying down the highest cost-of-capital first.

Finally, UCH opted to hedge a portion of its variable interest rate exposure with interest rate swaps, and Sims partnered with Kensington Capital Partners ("KCA") for the provision of swap advisory services as UCH.

Sims served as Structuring Agent and Co-Swap Advisor for the financing and refinancing, its inaugural financing for UCH.

For more detailed information on how United Church Homes was Financed Right® by HJ Sims, please contact:

Jim Bodine
215.854.6428
jbodine@hjsims.com

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