



THE SeniorCare Investor

Inside the World of Senior Care Mergers, Acquisitions and Finance Since 1948

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Senior care M&A deal volume in the second quarter fell to the lowest level in seven years, to just 59 publicly announced transactions. That number will likely rise as a few more deals may come to light, but it is also boosted by many first quarter closings that were disclosed in the public companies' earnings reports. Closings were much slower and point to a difficult Q3.....See article at right

Share Values Fall in H1:20

As COVID-19 cases rose in the country, the senior care stocks fell, for both the publicly traded providers and the REITs. Investors also hit skilled nursing and seniors housing companies alike. Going into the crisis, some were better positioned to recover. For others, this crisis has either stopped the turnaround or hastened the decline.....See article at right

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Q2 Senior Care M&A Falls Below 60 Deals

Dealmaking Drops To Seven-Year Low, And It's Not Getting Better

Well, we can't say we are surprised. COVID-19 and the economic ramifications stemming from social distancing and quarantine measures took a toll on seniors housing and care M&A, leaving the sector with just 59 publicly announced transactions in the second quarter. Back in early April, we said the second quarter's deal total would be low and wondered if we'd even get to 50 transactions. Even though we did surpass that level, a closer look at the deals reveals an even bleaker market.

The drop in activity is made even more stark after an unprecedented level of dealmaking in 2019, with 450 total transactions (not including scores more that were confidentially disclosed to us). Acquirers announced 118 deals in the second quarter of 2019, or exactly 100% more than 2020's second quarter total. There were also an impressive 117 transactions announced in Q2:18. We have been used to these high deal totals, with

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Publicly Traded Companies End H1:20 Down

The REITs and Providers Did Come Back, But Only Partially

The strength of one's census, cash flow or balance sheet did not matter. All but one of the publicly traded senior care providers could not avoid a significant hit to their share values in the first half of 2020. Understandably, no one has really recovered that lost value yet either, given that we are still in the swing of the pandemic and the medically complex, frail and elderly are still so at risk. In the case of a couple of companies, they were in good shape going into the crisis and are dealing with the decreased census and increased expenses like everyone else, but are in a better position to recover quicker. But a few were already struggling, and COVID-19 has made worse their census and financial woes. Then, there were a couple of companies where the turnaround was beginning to take hold before the world changed.

The Providers. You have to feel for Brookdale Senior Living (NYSE: BKD). Under the leadership of CEO Cindy Baier, the company was beginning to find

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BLOOM SENIOR LIVING PERFORMS

As we all know by now, COVID-19 has impacted different providers very differently. Some not-for-profits have been spared, while others have suffered greatly. The very large national providers have seen surges in positive cases and deaths in some of their buildings, while other buildings they operate have been completely spared. Was senior management doing something different in the spared buildings? Probably not, but often times it can be the local management team, and just as often with this pandemic, it can just be a matter of luck.

Small providers, especially those with hands-on senior management, seem to have fared reasonably well from conversations we have had. Were they in states that have not seen major outbreaks (or at least areas in those states), so the likelihood of unsuspecting staff bringing the virus into the community is lower? Possibly. But it is also how quickly they responded to the pandemic, both in terms of infection protocols and shutting down admissions and visitors. The third aspect

is communication with families.

One particular company, Bloom Senior Living, with nine assisted living communities (with some IL and MC) in five states (only two states are contiguous), has fared well so far. A few years ago, we were privy to the company's communications with family members when a hurricane was about to hit the east coast.

They were prepared, told family members where the residents were going, when they were leaving their current residence, how long it would take to get there, confirmed all the meds were going with them, and communicated to them when they arrived and frequently during the "guest stay." It had all been worked out in advance.

It was about as good a communications job as you can get. With the horror stories in the national media about family members unable to get through to anyone at a nursing home, or being told that their mother was doing just fine (when she died the next day, true story), well, there is another way that it is supposed to be done.



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The final piece is that you have to get the entire staff on board with what you are doing. Without that, success will be difficult. We have watched all the videos put out by this company, which are obviously sent to family members, and whether it is just good PR or not, it works. Family members see staff they know, and they see their loved ones. And it is frequent.

So, management of this company decided to use March 8 as its benchmark date, before the March 11 Oval Office speech that terrified many, to track revenues across the portfolio. This was four days before they restricted access to their buildings on March 12, sooner than many providers (and they are not located in the Northeast).

While we do not have occupancy trends, we do have monthly revenues by community. Management wanted to see, each week, which buildings were posting a decrease or an increase in revenues compared with the benchmark week, and compared with the previous week.

For the first six weeks ending April 19, the majority of the communities either posted a small increase in revenues or were flat compared with the previous week. Total revenues were down just 1.57% (\$34,000) compared with the benchmark week beginning March 8. So far so good in the middle of the worst weeks.

The next four weeks were pretty similar, but by late May and into June there was a noticeable change. Instead of that 1.57% drop in revenues from early March, the decline tripled to a 5.08% decrease (down \$110,000). It stabilized there for the next three weeks ended June 20, and management expects the trend will mostly reverse itself as they start to do more tours and move-ins. In fact, during the next few weeks they already made some of that back. We hope to have a follow-up story later this summer.

From March 8 through June 20, four of the nine communities posted an increase or no change in revenues. In a normal flu season, that might be considered pretty decent. In this pandemic, it is a great performance. Despite what you read, there are some good stories out there. They just have to be told.

The other side of the story is the portfolio's net operating income. April's NOI was up 14% compared with April 2019, and May was down just 4% compared with May 2019. Not too shabby. Management knows that it can keep residents safe and manage the virus, profitably, and that what is being reported by many of the public companies isn't representative of the sector as a whole.

Perhaps most important of all from an investment perspective is that seniors housing does not go dark, like the hospitality, retail and restaurant sectors, and even office buildings. That should be remembered by all looking at seniors housing, pandemic or not.

Public Company Q2 Stocks...continued from page 4

The REITs. Who can forget the great sell-off of healthcare REITs on March 18? Their values had been trending downward since the 2020 peak in February, to be exact, February 18th or 24th for most of them. And then the bottom fell out (see chart on page 27). President Trump's Oval Office speech to the nation the week before didn't help, but the state-by-state shutdown to stem the tide of the coronavirus was the proverbial nail in the coffin.

Fortunately, all the nails were not hammered in too tightly, and in some cases their prices rebounded quickly. CareTrust REIT (NASDAQ: CTRE) is a case in point, as its shares more than doubled in value in one week since hitting a low on March 18. It just shows that there was little to no analysis being done, and fear, combined with trading programs and portfolio balancing, caused an absurd loss in value. Ohhh, the money that could have been made if you had the guts to buy on March 18. Oh well.

So, where do we stand at 2020's midpoint? Starting with the Big Three, Welltower (NYSE: WELL), the largest of the three, is emblematic of some of the absurdity in the markets over a very short time period. It hit a near-time high of \$89.84 on February 18, only to plunge by 73% by March 18. While not gaining it all back, by June 30 the shares hit \$51.75, up 113% from that low,