CAIN BROTHERS
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Industry Insights

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Contents

Middle Income Senior Care: A Market Too Big to Ignore

Banker Commentary by Joe Mulligan

As is the case with many things in life, the choice of where seniors get their housing and services is driven heavily by their financial resources. For wealthier individuals, the senior care industry offers many attractive private pay options, including congregate housing with a wide range of service and care levels and professional care ported into a home – whether their own or that of a family member. For lower-income seniors, their limited available personal financial resources can be augmented by governmental sources…*Continued on p.2*

Weekly Commentary

Market Commentary by Matt O'Grady

Headline News

Coming back from a great three-day weekend I can't help but take a moment to thank all our service men and women for making America what it is. Every one of them make sacrifices so that we can enjoy our freedoms. Memorial Day is a celebration of those that have made the ultimate sacrifice for the Red, White, and Blue. Thank you all: past, present, and future.…*Continued on p.3*

Commentaries *Banker Commentary by Joe Mulligan Continued from p. 1*

Text Shelter can be secured with family (when available), Section 8 vouchers or via the HUD 202 Supportive Housing Program. Services and care can be secured from Medicaid programs, either in a facility-based setting – primarily skilled nursing for higher acuity seniors and assisted living for lower-acuity seniors (in states with waiver programs) – or in-home with home and community-based care waivers. Additionally, CMS recently modified its funding policies to expand service offerings through Medicare and Medicare Advantage programs for both in-home and in-facility care, resulting in an increasing number of dual eligible seniors.

For seniors with financial resources in between, however, there is a conundrum that effectively gives them less options than the lower income cohort under the current system. Middle income seniors are typically too wealthy to qualify for the means-tested programs available to low income seniors, yet not wealthy enough to afford the private pay options for a sustainable period. Senior care operators and developers have long been attracted to the private pay market due to the potential for lucrative development fees, operating profits and the ability to create Class A trophy facilities. Low income or "affordable" housing developers and operators are often characteristically attracted to the industry due to market demand (largest market segment with 8.1 million seniors), passion, mission, tax advantages and cumulative economic inurement over time that enables them to pay the bills and feel good about their vocation. The "middle market" has long been the industry doughnut hole for developers and operators, because it lacks the mission sizzle of serving the poor and, heretofore, hasn't matched the economic potential of serving the wealthy. We believe a change in the focus of the industry is around the corner.

The notion of "middle income" in senior living development is generally a term of art that is evaluated on a market by market basis and not driven by precise income thresholds. In contrast, income thresholds for affordable housing are generally dictated by the types of support programs utilized (e.g., low income housing tax credits, Section 8 waivers, etc.), which limits housing eligibility generally to persons making 30% to 50% of area median income (AMI). In a comprehensive study recently released by The National Investment Center (NIC) called "The Forgotten Middle", the age 75+ middle market is defined as individuals in the 41st to 80th percentile of individual income and annuitized assets. Based upon the most recently available data set (2014 Health & Retirement Study), the mean income for individuals age 75+ is $44,326, excluding housing equity, and $57,187 with housing equity.

This middle-income cohort is projected to become the largest of the three by 2029 with 14.4 million seniors, which represents an increase of 83% from today. The growth drivers of this middle-income cohort are compelling trends that include demographics (first baby boomers turn 83 in 2029), lower savings (less pensions and more 401ks that are under-funded), less married couples (62% currently vs 52% projected in 2029) and fewer family caregivers, as birthrates continue to decline, and children are less likely to live nearby.

By 2029, 91% of these 75+ middle income seniors are anticipated to need assistance with up to three ADLs (activities of daily living), 67% will have 3+ chronic care conditions, 60% will have mobility limitations, and 16% will have high cognitive impairment needs. In 2014 dollars, the projected average cost in 2029 for independent living rent and medical costs of taking care of these needs is approximately $45,000; for assisted living, the projected rent and medical costs is $60,000. Using this math, only 20% of middle-income seniors are projected to have the financial resources available to afford this $60,000 cost, when excluding housing equity, and only 46% will be able to afford it even with housing equity.

Commentaries *Banker Commentary by Joe Mulligan Continued from p. 2*

The NIC analysis assumes no erosion or decline in the projected financial resources for seniors, which I believe may actually understate the magnitude of the looming problem. For example, the Board of Trustees of Social Security and Medicare recently announced that Social Security's costs are expected to exceed its income in 2020 for the first time since 1982, forcing the program to dip into its nearly $3 trillion trust fund to cover benefits. Absent policy changes, the Trustees project that by 2035 they will only be able to pay Social Security recipients about 75% of their scheduled benefits. The relevance of an SSI gap is significant; a study by the Urban Institute reported that social security comprises approximately 50% of the income for seniors age 65+ with income of $47,000, which is a close proxy to the $44,000 mean income referenced above. Further, with home ownership declining and seniors carrying more debt from student loans and bigger mortgages, we think the projected income with housing equity may be overstated.

While these are some sobering thoughts about the future of senior care options for middle income seniors, we have embraced this as an exciting opportunity for change and innovation that is long overdue. For years now, I have heard senior care market participants talk about the holy grail of a "middle market" product, yet I have not yet seen many models that have been impactfully replicable at any scale. This is both the essence of the problem and the beauty of the opportunity. The senior care industry – much like the healthcare industry in general – has learned the hard way that it is a very parochial industry that requires collaboration and risk sharing with many stakeholders in the healthcare ecosystem. The quest for developing prototypes and achieving scale is sexy and alluring, but the reality is that the value demanded by local consumers is oftentimes heavily driven by variables unique to each market. New models will emerge where the care and services needed by middle income consumers will be delivered from within and outside the walls, efficiently, cost-effectively and with multiple layers of funding sources. It will be named something different, because it will be different for many valid reasons. The whiteboarding has begun because the middle-income market potential has become too big to ignore anymore.

Commentaries *Market Commentary by Matt O'Grady Continued from p. 1*

Three-day weekends tend to provide investors extra time to digest market trends and re-evaluate the composition of their portfolios. The problem with the "I want it now" mindset that prevails through every aspect of life is that sometimes there aren't any easy or simple solutions for complex problems.

Take the British and Brexit, for example. I know I'm breaking another promise here but look at how long this has dragged on. Even with a vote by the people nearly three years ago (June 23rd, 2016) and now with the resignation of Prime Minister Theresa May, there still isn't any sign of bringing closure to this issue. You can see how difficult the desire for immediacy can become, and that over a protracted period of time investors decide to focus their concerns on other issues that seem more immediate.

That brings us right back to the trade war between the United States and China. This is another complex issue with a myriad of moving parts. Investors would certainly like to come to a resolution, but, if you've been following the reactions to sound bites, the markets are reacting less and less each time. Now that doesn't mean the markets will be tone deaf, but it does means that the markets will look for immediate impacts and worry less about "what ifs."

As an example, investors sifted through the failed deal and the additional tariffs and started focusing on the sectors and companies immediately impacted. As you can imagine, a lot of technology firms have been under pressure for supply chain disruptions, increased production expenses, and in some instances diminished demand from trade war inflation.

With so many potential flashpoints still on the table, it wouldn't surprise me if investors opt for more time at the beach this summer and less time making investment decisions.

Economic Releases

Last week's reports were a little bit of a mixed bag. Most reports came in as anticipated, but there were a few misses and a few surprises. When different data points suggest opposite things, investors and the Fed decide that the best course of action is to wait for more data.

This week investors will be focused on the following reports: Consumer Confidence, GDP, Initial Jobless Claims, Personal Spending, Pending Home Sales, PMI, and University of Michigan Sentiment.

Market News and Numbers

The stock market finished the week down 0.69% as the DJIA closed at 25,585. Equity investors were holding out hope for a trade deal between the United States and China. Unfortunately, they had to settle for the winners and the losers of those impacted by the additional tariffs. Of course, the timing of when these actually, begin had some impact as well.

Biotech had some big news last week as Merck agreed to buy Peloton Therapeutics right before they were about to go public. Peloton Therapeutics is a first in class pharmaceutical company focused HIF-2A cancer drugs. The real story here is that Merck would make such an aggressive move while the overall market has been so jittery.

The Treasury market continues to be the safe-haven for investors seeking less risk. The 10-year bond saw its yield move seven basis points lower to a 2.32%. It's not uncommon to see Treasury bonds rally ahead of the three-day weekend, but the rally has continued here this morning, even as senior traders have returned to their posts. Most traders believe this move is most related to the market's expectation that the Federal Reserve will cut rates by a quarter of a point before year-end. If we see the 10-year pierce through the recent

Commentaries *Market Commentary by Matt O'Grady* *Continued from p. 4*

resistance level of 2.25%, it would indicate that the next stop could be 2.00%.

The rally in tax free municipal bonds continues to turn heads. The record-breaking fund flows for 2019 now stands at $37 billion year to date as they enjoyed their twentieth straight week of positive cash flows. Lipper reported $1.5 billion, and ICI reported $1.76 billion.

This influx of cash and the limited amount of new issue supply has pushed the ratio of municipal yields to those of Treasury yields to levels not seen in a very long time. The historical ratio over the last 30 years has averaged about 92%, and currently every spot on the yield curve is well through that number. The short end of the curve is under 70% of Treasury yields!

These dramatic market conditions are starting to make investors scratch their heads. If you look at high yield mutual funds, they have been forced to chase downtrodden credits like Puerto Rico and Illinois. As examples, one fund has doubled their exposure to Puerto Rico over the last five months, and the yield spread on Illinois bonds has dropped 150 basis points from its recent highs.

The tracking numbers continue to reflect strong demand, even though there have been some participants that have recently come out and suggested that this rally has been overdone. Heading into two of the largest reinvestment months of the year, I expect demand to remain strong despite these concerns. Historical trends are only useful until they become outdated, and no one will fully understand the impact of tax reform on municipal bonds until these trends prove themselves out over the next decade.

MMD reflected the changes in the yield curve as short-term rates dropped a few basis points, the middle of the curve was flat, and the long end moved two basis points higher. The indexes mirrored these moves as SIFMA closed three basis points lower at 1.32%, while the RBI was flat for the week closing as 4.05%.

This week's negotiated new issue calendar is well below the weekly average and stands at $2.23 billion.

Oil finished the week sharply lower. WTI futures closed on Friday at $58.63.

<u>What Deals Got Placed</u>

In Minnesota, Allina Health System issued $300 million of taxable corporate debt. The bonds were rated AA- by S&P and Fitch. They issued a single term bond in 2049 at 3.887% (+108 to the 30-year Treasury bond).

In Alabama, UAB Medicine borrowed $103 million of new bonds. The bonds were rated Aa3 by Moody's and AA- by S&P. The longest term came in 2048 with a 4.00% coupon to yield 3.16% (+74).

In Wisconsin, Ascension Health Alliance issued $73 million of new bonds. The bonds are rated Aa2 by Moody's, AA+ by S&P, and AA+ by Fitch. The longest term came in 2043 with a 4.00% coupon to yield 3.04% (+62).

In Senior Living, Moravian Manors in Lancaster, Pennsylvania issued $29 million in new debt. The bonds were rated BB+ by Fitch. The longest term came in 2049 with a 5.00% coupon to yield 3.74% (+133). The borrower also issued a series of bonds tied to the receipt of entrance fees that mature in 2023. The bonds were priced at par with a 2.875% coupon (+136).

Commentaries *Market Commentary by Matt O'Grady* *Continued from p. 5*

What's on Deck

MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY REVENUE BONDS, RESIES 2019 (WAVERLY HEIGHTS, LTD. PROJECT)	05/30	43,805 NR / NR / A-
CALIFORNIA MUNICIPAL FINANCE AUTHORITY INSURED REVENUE BONDS (TOWN AND COUNTRY MANOR) SERIES 2019	05/30	38,905 / AA- /

Market Indices

Equity Indices Information as of May 24, 2019

Index	Close	Returns 52 Week	Returns Weekly		Returns 52 Week	Returns Weekly
DJIA	25,586	5.0%	(0.7%)	Acute Care	6.8%	1.0%
S&P 500	2,826	5.1%	(1.2%)	Alternate Site Services	(12.4%)	(0.1%)
NASDAQ	7,637	3.3%	(2.3%)	Diagnostics	0.4%	0.1%
Russell 2000	1,514	(6.7%)	(1.4%)	Distribution	(9.5%)	2.3%
NYSE Healthcare	15,790	10.9%	1.7%	Healthcare IT	15.0%	(0.1%)
				Healthcare REITs	20.4%	0.7%
				Managed Care	5.6%	1.9%
				Medical Technology	4.7%	0.1%
				Outsourced Services	(14.7%)	(0.4%)
				Pharma Services	5.1%	1.3%
				Pharmacy Services	(28.8%)	(1.9%)
				Post-Acute Care	14.1%	(0.6%)

Source: Cain Brothers, Bloomberg and Capital IQ.

Tax-Exempt Debt Information as of May 24, 2019

	Current (%)	One Week Ago (%)	One Year Ago (%)
A-rated Tax-Exempt Hospital Bonds (30-Yr)	2.97%	2.95%	3.57%
AA Tax-Exempt Hospital Bonds (30-Yr)	2.87%	2.85%	3.32%
SIFMA (Variable Rate Demand Notes)	1.32%	1.35%	1.20%
Revenue Bond Index	4.05%	4.05%	4.39%
SIFMA/1 Month LIBOR	54.32%	55.33%	60.74%
RBI/30 Yr Treasury (%)	147.27%	143.62%	141.98%
30–Year Floating to Fixed Swap (81% LIBOR)	1.98%	2.04%	2.48%

Source: Cain Brothers. Note: SIFMA, RBI & 30-Yr. Treasury are as of prior Thursday close

Transaction Activity, Week of May 27, 2019

M&A Activity

Announced	Target	Acquirer	Ent. Value	Enterprise Value/ LTM Rev.	Enterprise Value/ LTM EBITDA	Description
5/22/2019	MAP Health Management	Triton Pacific Capital Partners	NA	NA	NA	Provider of peer recovery support services and data insights for people with substance use disorders
5/21/2019	Belmar Pharmacies	Webster Equity Partners and MedEquity Capital	NA	NA	NA	Specialty compounding business
5/20/2019	Cancer Treatment Services International (Asia Healthcare Holdings)	Varian Medical Systems (NYSE: VAR)	$283.0	6.5x	NA	Provider of university-level, comprehensive treatment for cancer patients

Source: Capital IQ, Mergermarket, PE HUB and press releases.

Public Offering Activity

Date	Issuer (Ticker)	Underwriter(s)	Offer Price	Amt Offered	Current / Offer	Market Cap.	Description
Follow On							
5/23/2019	NeoGenomics (NEO)	MS, SVB Leerink, William Blair	$21.25	$148.8	0%	$2,173.9	A network of cancer-focused testing laboratories

Source: IPO Monitor, Capital IQ, Mergermarket, PE HUB and press releases.

Private Placement Activity - Equity

Date	Company	Investor(s)	Type	Amount	Description
5/21/2019	CalaHealth	Novartis, Baird Capital,LifeSci Venture Partners, TriVentures, JJDC, Lux Capital, Lightstone Ventures, ActionPotential Venture Capital, dRx Capital, and GV	Series C	$50.0	Bioelectronic medicine company developing wearable therapies for chronic disease

Source: Capital IQ, Mergermarket, PE HUB and press releases.

Healthcare News

Trump Administration Preparing Executive Order on Health-Cost Disclosure

President Trump is expected to release an executive order as early as next week to mandate the disclosure of prices in the health-care industry, according to people familiar with the discussion. The order could direct federal agencies to pursue actions to force a host of players in the industry to divulge cost data, the people said. The administration is also looking at using agencies such as the Justice Department to tackle regional monopolies of hospitals and health-insurance plans over concerns they are driving up the cost of care, according to two people familiar with the discussions. (The Wall Street Journal, 5/24)

https://www.wsj.com/articles/trump-administration-preparing-executive-order-on-health-cost-disclosure-11558690320

Senate Committee Unveils Sweeping Healthcare Bill Package

The Senate health committee on Thursday released its draft legislation to tackle healthcare costs, with provisions that read like a road map of how hospitals and insurers use contracts to dominate their competitors, consolidate their business and keep patients in the dark. The proposal marks the healthcare legislative swan song of Sen. Lamar Alexander (R-Tenn.) as head of the Senate health committee. The package aims to clear up some of the system's opaqueness; mend loopholes exploited by hospitals, insurers and manufacturers; and cut some fat out of the healthcare industry through simple reforms. (Modern Healthcare, 5/23)

https://www.modernhealthcare.com/government/senate-committee-unveils-sweeping-healthcare-bill-package

Oncologists Set to Lose Big Under CMS Payment Model

A new analysis suggests most oncology practices participating in CMS' voluntary bundled-payment model are not prepared to take on downside risk and need more time to prepare before the mandatory start date in July. New estimates released Tuesday by Avalere Health projected around 70% of the 176 oncology practices participating in the Oncology Care Model would owe the CMS payments to recoup costs if they moved from their current one-sided, upside risk arrangement to a two-sided risk arrangement where they would be responsible for paying the difference if they did not meet a target price for services. (Modern Healthcare, 5/22)

https://www.modernhealthcare.com/finance/oncologists-set-lose-big-under-cms-payment-model

Healthcare News *Continued from p.6*

House Leaders Propose Restructuring Medicare Part D

U.S. House of Representatives health committee leaders have drafted new reforms to Medicare Part D as Congress prepares for a final legislative sprint on drug pricing. On Thursday, the Democratic chairs and ranking Republicans of the Ways and Means and Energy and Commerce panels released the discussion draft of a bill to cap what people have to pay out-of-pocket for medications under Medicare Part D. The bill would also whittle down the government's share of catastrophic coverage from 80% to 20% over four years. (Modern Healthcare, 5/23)

https://www.modernhealthcare.com/government/house-leaders-propose-restructuring-medicare-part-d

House Passes Legislation to Strengthen the ACA, Boost Generic Drugs

House Democrats pushed through legislation Thursday to lower prescription drug prices, strengthen the Affordable Care Act and — most significantly — position themselves as the party on the side of health-care consumers as the 2020 election approaches. The 234-to-183 vote, with every Democrat and five Republicans casting ballots in favor, gave a partisan hue even to three strategies to boost the availability of generic drugs that initially attracted GOP support. Those were merged, however, with measures that would block several Trump administration policies that Democrats characterize as “sabotaging” the ACA. (Washington Post, 5/16)

https://www.washingtonpost.com/national/health-science/house-passes-legislation-to-strengthen-the-aca-boost-generic-drugs/2019/05/16/e2a323de-7657-11e9-b3f5-5673edf2d127_story.html?noredirect=on&utm_term=.d9b1d9b03dd1

How Obamacare, Medicare and ‘Medicare for All’ Muddy the Campaign Trail

The health care debate has Democrats on Capitol Hill and the presidential campaign trail facing renewed pressure to make clear where they stand: Are they for “Medicare for All”? Or will they take up the push to protect the Affordable Care Act? Obamacare advocates have found a powerful ally in House Speaker Nancy Pelosi, who in a recent “60 Minutes” appearance said that concentrating on the health law is preferable to Medicare for All. She argued that since the ACA’s “benefits are better” than those of the existing Medicare program, implementing Medicare for All would mean changing major provisions of current Medicare, which covers people 65 and up as well as those with disabilities. (NBC News, 5/10)

https://www.nbcnews.com/health/obamacare/how-obamacare-medicare-medicare-all-muddy-campaign-trail-n1004236

Cain Brothers' Transactions

Ridgemont EQUITY PARTNERS
Has formed a strategic partnership with
SPG
SPEECH | PSYCH | BEHAVIOR
BUYSIDE M&A ADVISORY
April 2019

ARSENAL CAPITAL PARTNERS
Has acquired
hopebridge
BUYSIDE M&A ADVISORY
May 2019

SW Holdings
Sussex Wire MAROX
A portfolio company of
ARGOSY PRIVATE EQUITY
Has been acquired by
MW INDUSTRIES Inc.
A portfolio company of
AMERICAN SECURITIES
SELLSIDE M&A ADVISORY
April 2019

Primary Health Medical Group
Has received an investment from
Blue Cross of Idaho
FINANCIAL ADVISORY
April 2019

alacare HOME HEALTH & HOSPICE
Has agreed to be acquired by
Encompass Health
SELLSIDE M&A ADVISORY
Pending

Centerbridge
Has acquired
CIVITAS SOLUTIONS
BUYSIDE M&A ADVISORY
March 2019

Centerbridge
Has acquired
CIVITAS SOLUTIONS
$1,180,000,000
Senior Secured
Credit Facilities
JOINT LEAD ARRANGER &
JOINT BOOKRUNNER
March 2019

Onlife HEALTH
A subsidiary of
of Tennessee
CAMBIA HEALTH SOLUTIONS
Has been acquired by
GUIDEWELL
SELLSIDE M&A ADVISORY
February 2019

DR. DENTAL
Adult and KIDS Dentistry... For Less!
Has been recapitalized by
abry partners
SELLSIDE M&A ADVISORY
January 2019

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