

Lucas

Welcome to Bridge the Gap, the senior living podcast with Josh and Lucas in Houston, more thought leadership conversations. Today's going to be a great topic on M&A. We want to welcome Dan Revie, he is with Ziegler. Welcome to the show.

Dan

Thank you, thanks for having me.

Lucas

Did I say that right? I didn't.

Dan

You did.

Lucas

Did I? Cool. Well good, well, now that we've got that behind us, we're going to talk about M&A transactions, a lot of conversations taking place here at the NIC conference, and one thing that is a big topic is like, where are we now having passed this COVID era? We've got this hangover from COVID there's you know, a lot of things still in play here, many different topics. What is part of your conversations around the M&A market?

Dan

Yeah, so the last couple of days have been interesting at NIC with this being the last morning and the overall tenor from the conference was very positive, and I think it's partly because people are back to going to conferences again and it feels good. And I think it's back also because COVID has really, I think at this stage it's in the rear view mirror, in terms of transactions. When COVID hit we had a number of transactions, M&A transactions, in the market, as did lots of folks, and everyone really hit pause and we didn't lose really any transactions to COVID, but everything was paused for probably a good eight or nine month period until people could figure out, get their, get their own house in order, in terms of dealing with COVID and procedures. And then the market started to come back around and, and also lenders didn't, they just weren't comfortable and they called it environment knowing. Well, how's this going to turn out? So fast forward to where we're at today, you have a combination of the transactions that were put on hold during that eight or nine month period, in addition to new transactions that are coming to market because they didn't want to come to market during COVID. So you really have almost, you know, not, maybe not quite double, but significant volume relative to historical trends. And, you know, it's, so from a valuation perspective, it's also interesting because we see buyers all the time that are looking at different acquisition opportunities, and they're looking at the trailing numbers and they're trying to figure out, well, how do I value this? Because if I look at trailing cash flow, it's, you know, it's not great, I'm trailing 12 months. And a lot of that has to do with COVID obviously. And, they're now taking that COVID period and really essentially throwing it out. You know, they'll look at the 2019 numbers, and then they're going to look at the trend as long as you're starting to have that curl back up to where you were at, and you can see the light at the end of the tunnel, and you can see, or you can get back to that point you were pre-COVID, folks are valuing it really at that level.

Josh

Well, the one thing that I loved about what you said is we're looking at COVID and throwing it out. If we can do that and just put it out of our memories. But no, in all reality, we learned a lot and I think the pressure cooker that we've all gone through, we're going to come out stronger. I do love that the positive vibe that we've heard here at NIC. And I think that does have to do with a lot of people getting together in person. I can tell for myself, just seeing old friends, making new friends and the positivity just around that is refreshing. And so, forward-looking, talk about like how you think underwriters has anything changed for the underwriting of deals transactions moving forward post-COVID, or still kind of the same, other than the financials thrown out like the COVID period?

Dan

I think the other dynamic when you're looking at valuations here recently is because of the cash flows are, obviously with the COVID unusualness in there, there's a little bit more discussion and attention on per unit or per bed pricing, and looking at values from that perspective rather than, okay, well, what's the cap rate because the cap rates a weird cashflow period don't really apply. So that's, we're seeing a lot more of that. As people are talking about values, they're talking more about per unit or per bed.

Lucas

Well, and on the transaction marketplace, as far as volume is concerned what are you seeing? Not only the deals that were on hold and then the deals that just should've come, but didn't, that seems to be some retraining going on specific portfolios recently in the news, the eclipse kind of transaction there, that's obviously, I don't know, 90 plus properties that presumably will be shifted around to regional players or a different operator. How are you seeing which is, you know, you've got that, and you've also got some mom and pops that have been, you know, 20, 30 years in the business. COVID just was like, okay, this is it I can't, I'm not doing this anymore. It's time to just retire. It's time to get out, and they're selling off 5, 10, 15, 20 properties. Are you seeing that as a part of the volume increase as well?

Dan

Oh yeah, definitely. We're, talking to a couple of families and it would be like you just described, oftentimes second generation or third generation or operators that, you know, that their, their parents or their grandparents started the business, and while they work there and, you know, they made a good living and liked it and, and like caring for the folks in their buildings COVID hit, and they just said, okay, this is too much. So we're definitely seeing that. And the other thing I think with some of the smaller operators is what COVID showed them is maybe don't have the scale or, over management oversight or sophistication that maybe we should have, or needed to help us get through COVID a little bit better, and that's caused them to struggle. And so we're seeing some of those smaller operators struggling and they're taking their buildings to market.

Josh

So talk about product service type. Are there any trends? I know we've heard just through the grapevine here, everything from active adult, independent assisted memory care, new variations of combining all of those. When you look at M&A specifically, is there anything that's like the big, new, sexy product type that people are really going out after and looking like, hey, I want to acquire this type of product. Do you hear anything like that?

Dan

Well, active adult is definitely the hot space right now. You know, there's conferences that are coming out, just focusing on active adult, and it's kind of the buzzword that we've heard here in the last couple of years in terms of the products that seem to have fared the best through COVID it was a continuum of continuum of care campuses. So the CCRC or life plan communities, those occupancies stayed pretty strong, stronger than a lot of us, other asset types. And so they've fared well, I, I think that'll transmit into folks rethinking what types of acquisitions they want to make, but we'll see.

Josh

What about legacy properties? Do you still think that's something that people are going to be seeking after, those value add turn arounds legacy properties to flip those and try to repurpose?

Dan

Yes. Yeah. We're working on a number of value add properties right now across the whole senior housing spectrum, skilled nursing up through CCRC, and there's definitely value add buyers out there. And when COVID first hit, you know, there was a lot of folks that were looking for value added, and it really almost vulture buyers, kind of trying to come in and swoop in and get something for really not much. And that that buying group has now realized that that's not going to win the transactions anymore, and maybe didn't even win it back then. So you are seeing folks that are coming in and saying, okay, this is a value add, and it's even a little bit deeper of a value add because of COVID, but we've got some capital we're going to reinvest in the buildings, we're going to refresh them, modernize them, and bring the occupancy backup as we, as the buildings recover out of COVID and yeah, then probably resell them in three to five years.

Josh

So pull out the crystal ball. What do you think is the greatest opportunity for operators positioning themselves going forward?

Dan

I think right now that in, and everyone's talked about it, but the staffing issues are, are the toughest thing in operations right now, so I think for operators to position themselves as the, as the employer of choice and really work on the best they can in terms of recruitment and retention, is going to be important in the next year, year or two, for sure. And there's different ways folks are doing that. There's technologies that some of the employers are offering their staff as a recruitment and retention tool, and making the staff work environment a nicer place to work because you're, you've got a lot of competition for people right now.

Josh

Well, I love talking with you guys, anytime we get an opportunity from Ziegler, because you have such a global perspective, you've worked with so many great operators and developers on new product, on acquisition and turnaround. So you get to kind of look and see what's the best of the best, what's

working across multiple platforms. At some point we want to have you guys talk about the Link-age Funds as well, because that we're talking about tech, that's a great opportunity to have vetted technologies that are legit, as I like to say. They're not just in the startup phase, they're proven you want to touch any on that? And I know that's not necessarily what you're in every day, but I think that's a great program that Ziegler offers as well.

Dan

Yeah. So the Ziegler Link-age Funds, it's a really unique idea where we have gone out and gone to providers. So senior living operators, owner-operators, and pull them together. We've got a hundred of them in each fund. We're coming out with our third fund. They invest in the fund that invests in cutting edge technology and service companies that serve the senior living in long-term care space. So it's kind of a circular in terms of the service and the products, and what it allows them to do is get a first look at these technology and service companies that have already been vetted by the Ziegler Link-age Funds. And then there's every Thursday for about a 10 week period we have webinars during our lunch hour, so that investors in the fund can see some of these companies that the fund may or may not invest in, but it's a very efficient way for them to get through all the tech and service companies out there, and really vet the ones that, you know, as you've said, we've been productive and successful.

Josh

Well, and Lucas, I mean, you've probably seen it as well. We talk a lot about it as an operator. One of my biggest challenges is just the emergence of so much new tech to our space. And I'll tell you when you're talking about managing your time as an operator and in recruitment and retention of great team members and the occupancy challenges, and being there to support your team, and then having to go out and have 15 or 20 calls a week with different tech providers, that all seem to be providing a similar solution, but you know, most operators that I know don't speak tech, and I'm one of those. So to have specifically designed program services that meet those technical solutions that have already been vetted by hundreds of other operators and specifically designed for our industry, I think that's a really awesome, and I know we're going to make sure we talk more about that on our platform, because I think that's a great resource to our listeners.

Lucas

Absolutely. And Ziegler is also a big supporter of our VIP event that we had in Nashville. We're looking forward to 2022, much more information about that coming out very soon. And yeah we thank you for spending some time with us today.

Dan

Thank you for having me appreciate it.

Lucas

Safe travels. And to all our listeners, you can go to BTGvoice.com, connect with Josh and Lucas there and get on our social media sites, download some of our content, and we want to hear from you. Thanks for listening to another great episode of Bridge The Gap.