

Skilled Nursing News

Beyond PDPM:

Top Challenges and Opportunities
for Skilled Nursing in 2020

12/17/19

Panelists

Bill Kauffman

Senior Principal

National Investment Center for
Seniors Housing & Care

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Managing Director

Senior Living
Investment Brokerage



Beyond PDPM: Top Challenges and Opportunities in 2020

Skilled Nursing News Webinar

December 17, 2020

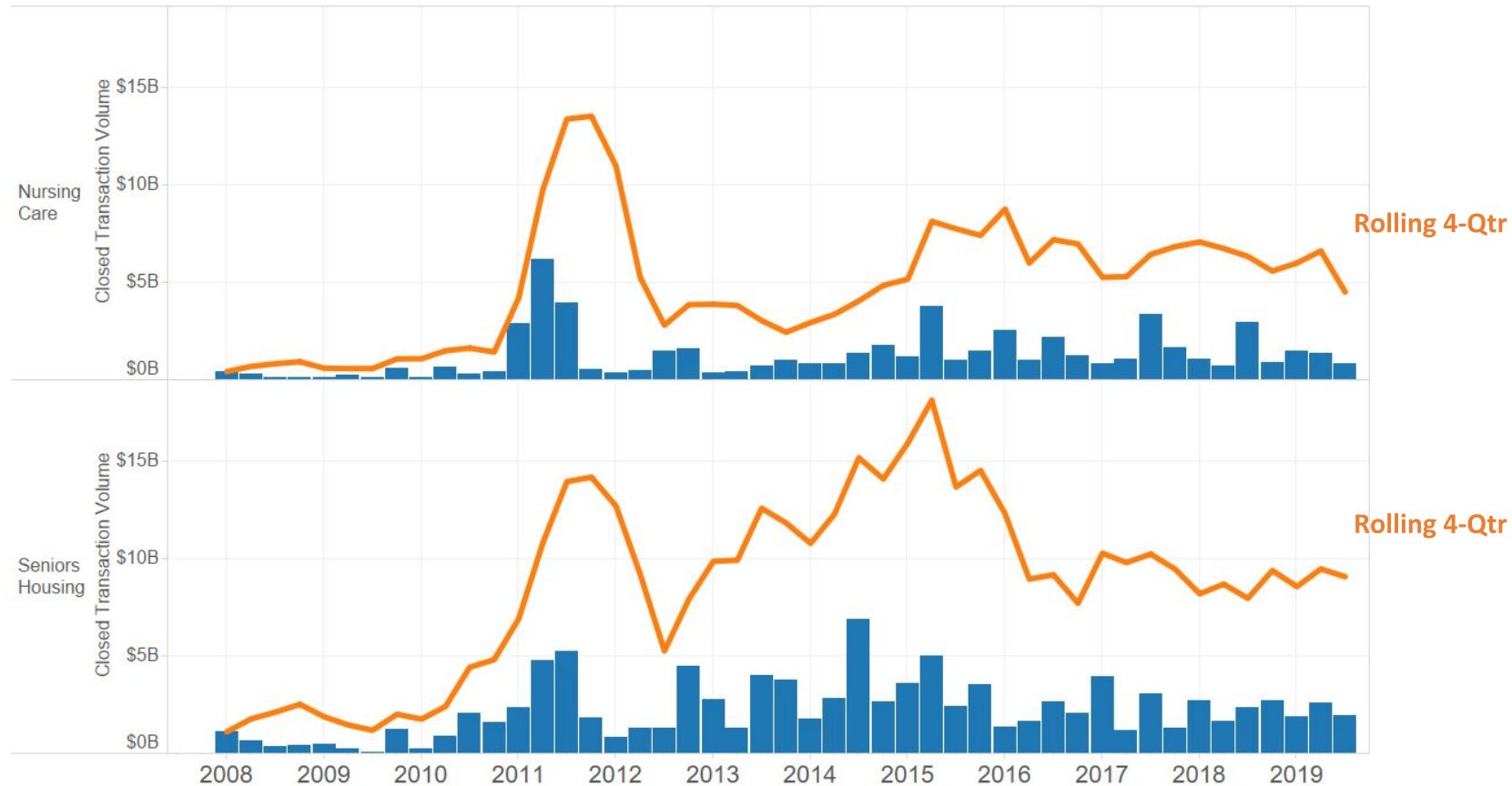
**Bill Kauffman
Senior Principal**

**National Investment Center for
Seniors Housing & Care**

Transactions Trends

Closed Seniors Housing & Care Dollar Volume: \$3.2Bn for 3Q19

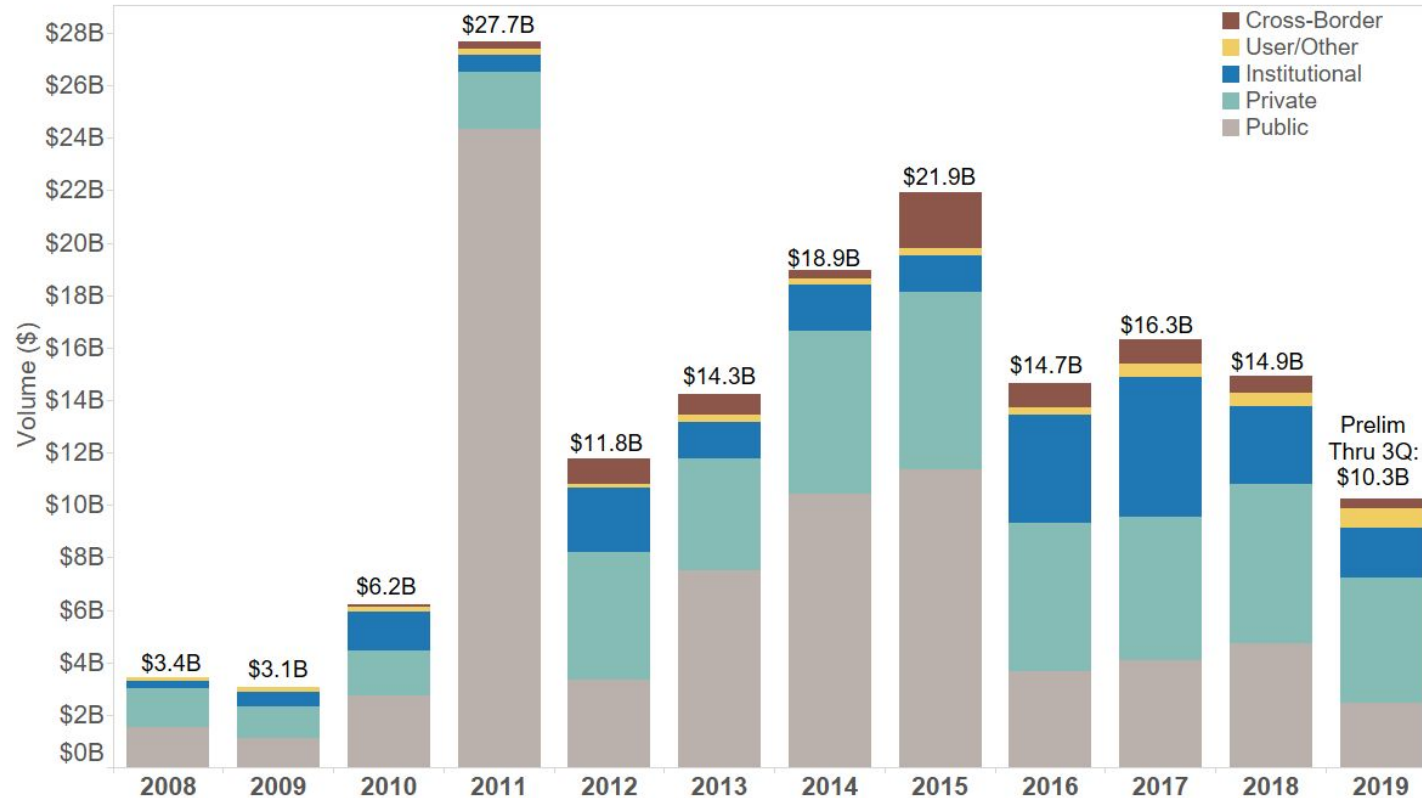
Seniors Housing & Care Transactions Volume U.S. | 1Q08 – 3Q19



Source: NIC MAP® Data Service, Real Capital Analytics

Private Buyers Represent 47% Through 3Q19

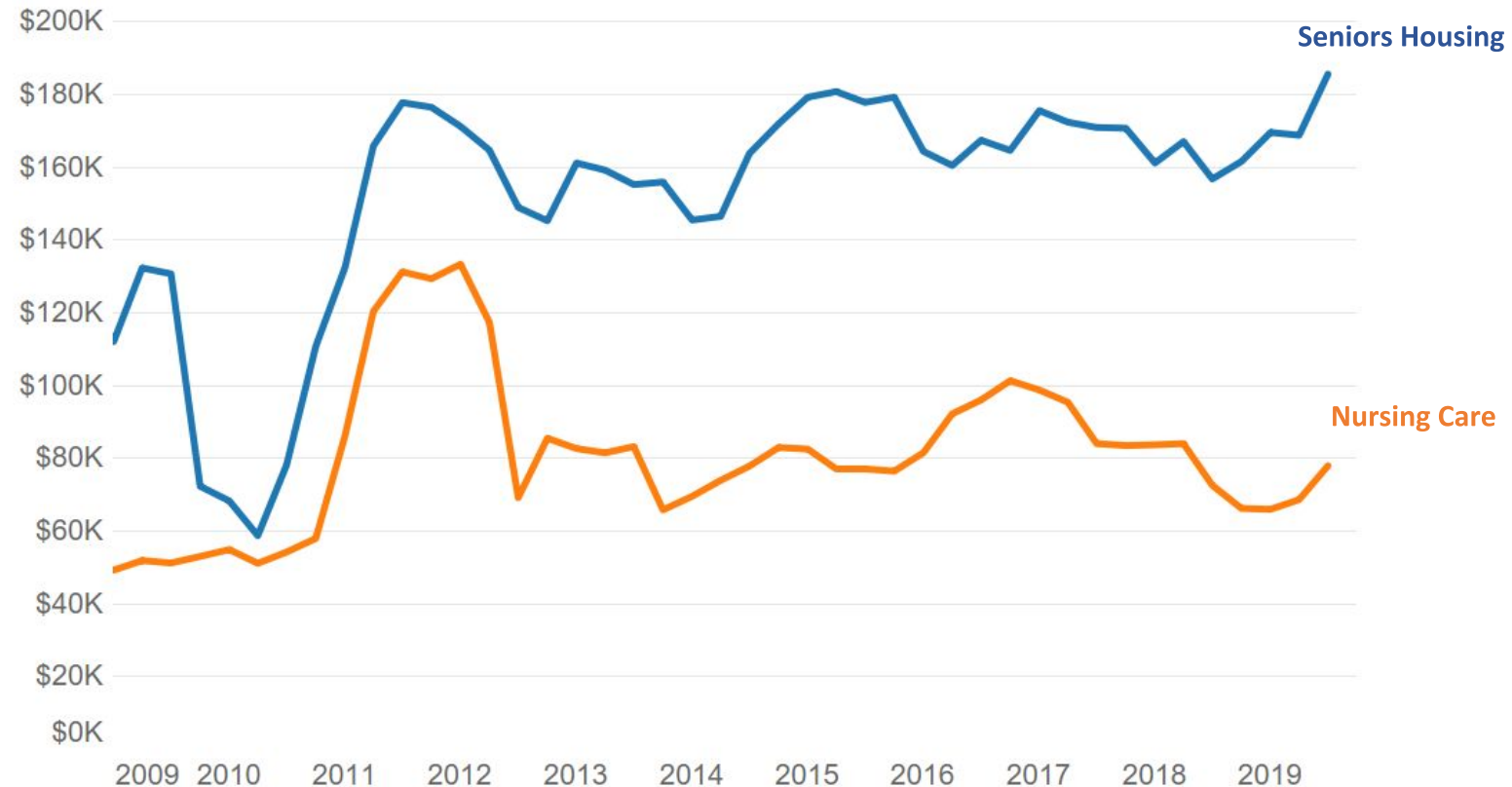
Closed Transactions Seniors Housing & Care Volume by Buyer Type U.S. | 1Q08 – 3Q19



Source: NIC MAP® Data Service, Real Capital Analytics

Seniors Housing and Nursing Care Pricing Up in 3Q19

Seniors Housing & Care Transactions Rolling 4-Quarter Price Per Unit U.S. | 1Q08 – 3Q19



Source: NIC MAP® Data Service, Real Capital Analytics

Wide Distribution in Price Per Unit (PPU)

Seniors Housing & Care Transactions Price Per Unit Distribution¹ U.S. | Rolling 4-Quarter as of 3Q19

PPU Summary - Seniors Housing					
Average \$184,000	Lower Decile	Lower Quartile	Median	Upper Quartile	Upper Decile
	\$54,000	\$83,000	\$130,000	\$226,000	\$324,000

PPU Summary - Nursing Care					
Average \$80,000	Lower Decile	Lower Quartile	Median	Upper Quartile	Upper Decile
	\$32,000	\$46,000	\$68,000	\$94,000	\$134,000

*Deciles/Quartiles are rounded to nearest \$1,000

1. Preliminary Data

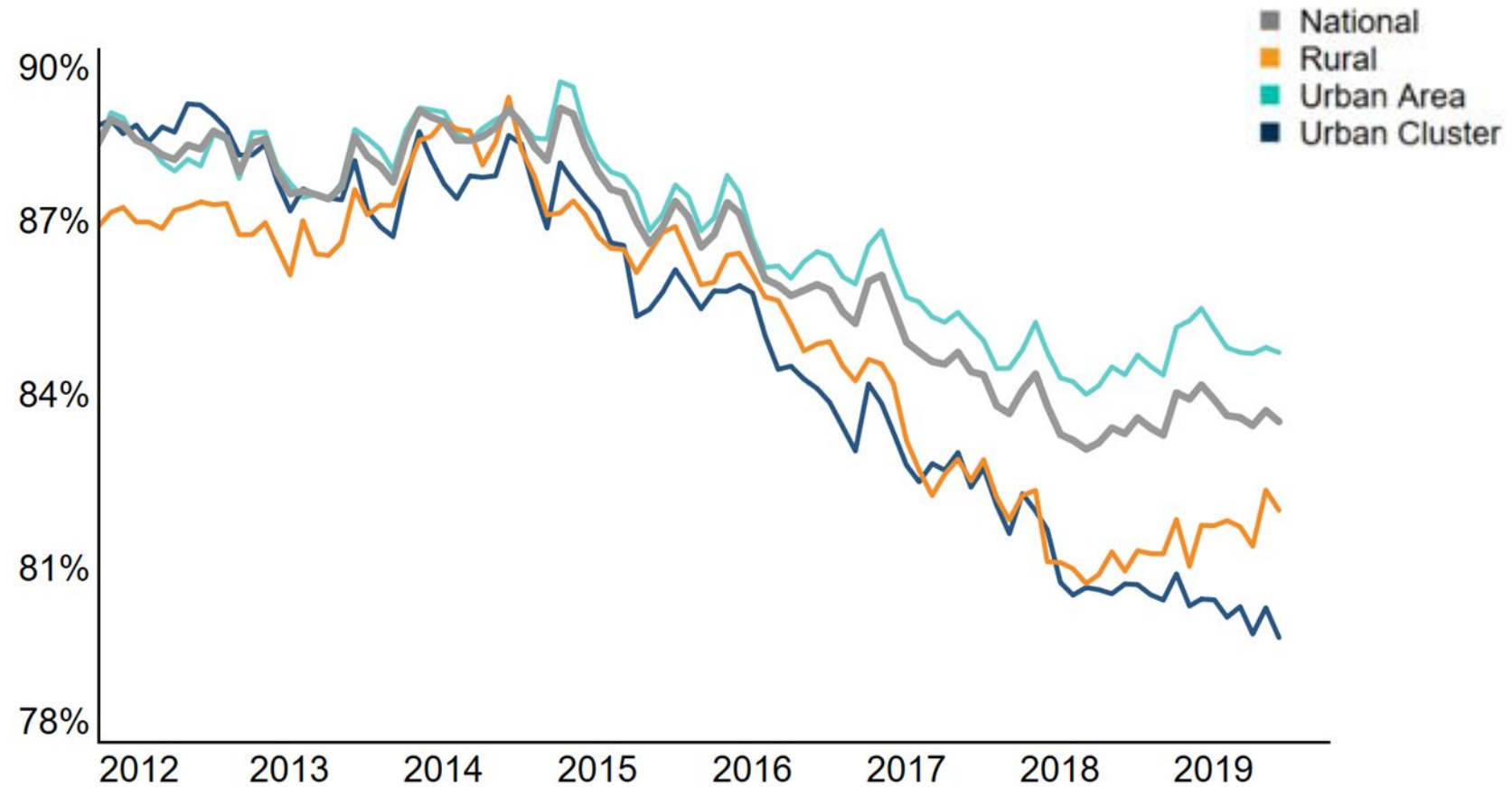
Source: NIC MAP[®] Data Service, Real Capital Analytics

Occupancy and Revenue Trends

Occupancy Flat in 3Q

Occupancy | Urban and Rural Trends

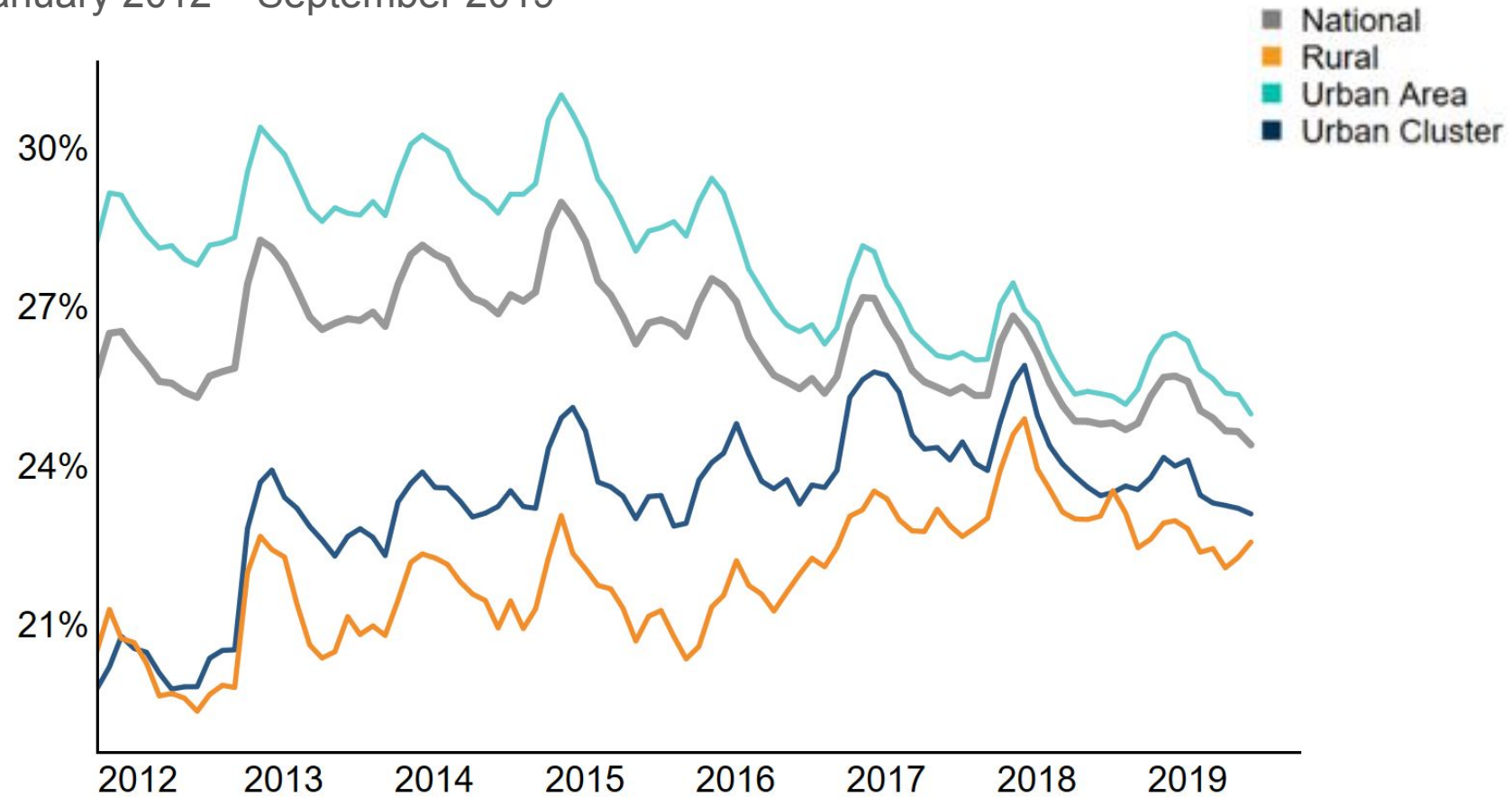
January 2012 – September 2019



Source: NIC Skilled Nursing Data Initiative

Skilled Mix Hits Time-Series Low

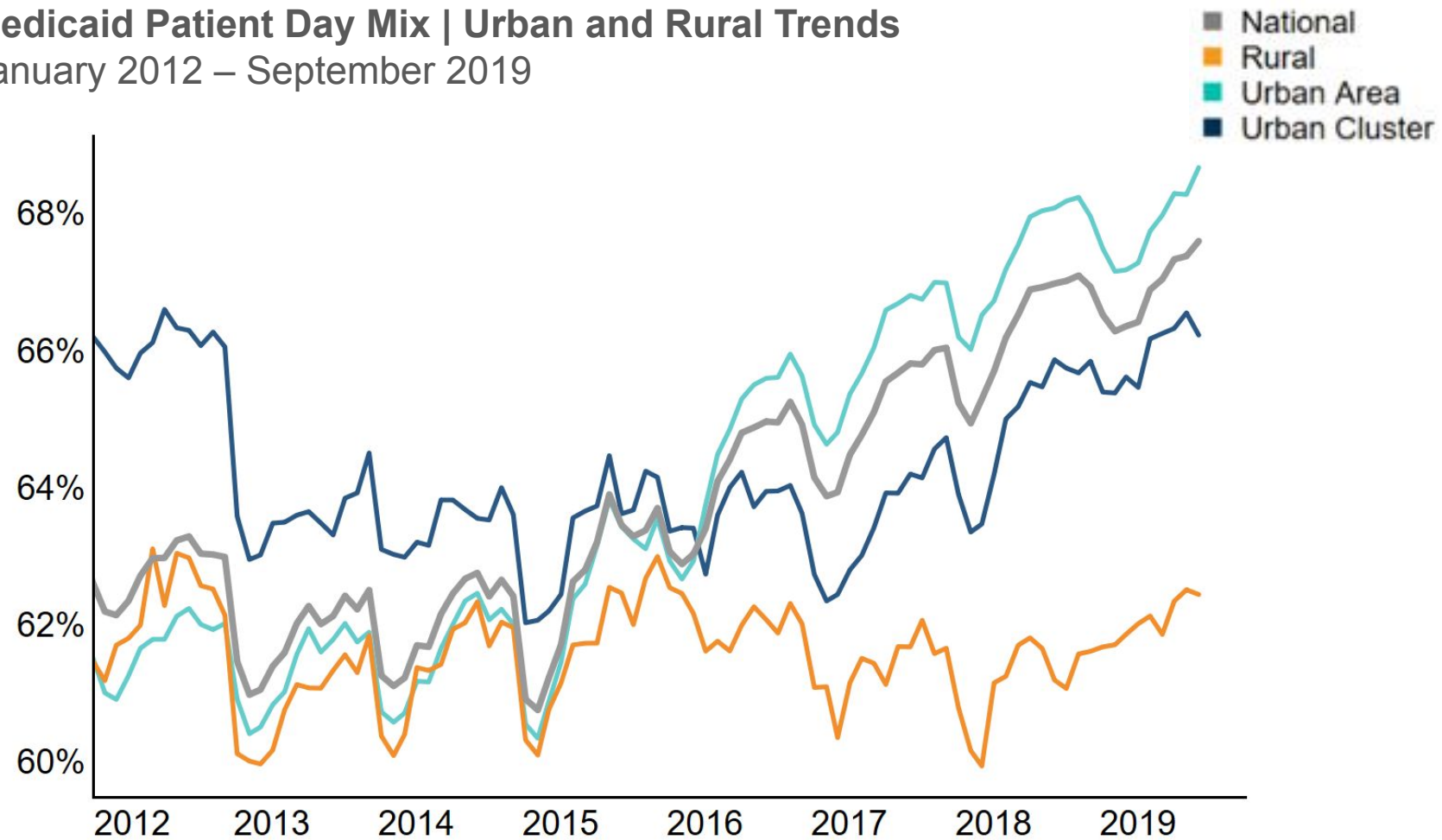
Skilled Mix | Urban and Rural Trends
January 2012 – September 2019



Source: NIC Skilled Nursing Data Initiative

But Medicaid Patient Day Mix Hits Time-Series High

Medicaid Patient Day Mix | Urban and Rural Trends
January 2012 – September 2019

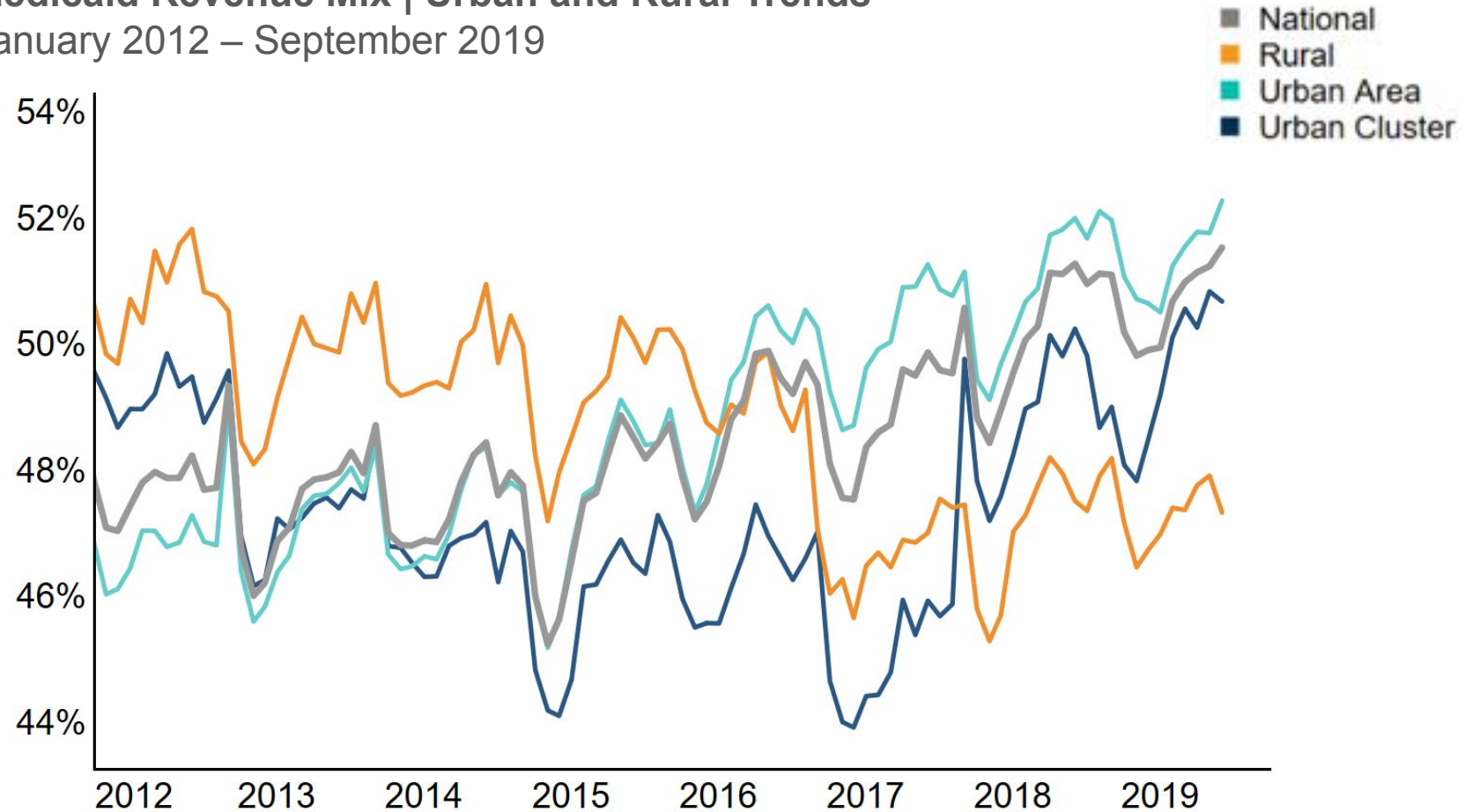


Source: NIC Skilled Nursing Data Initiative

And Medicaid Revenue Mix Hit Time-Series High

Medicaid Revenue Mix | Urban and Rural Trends

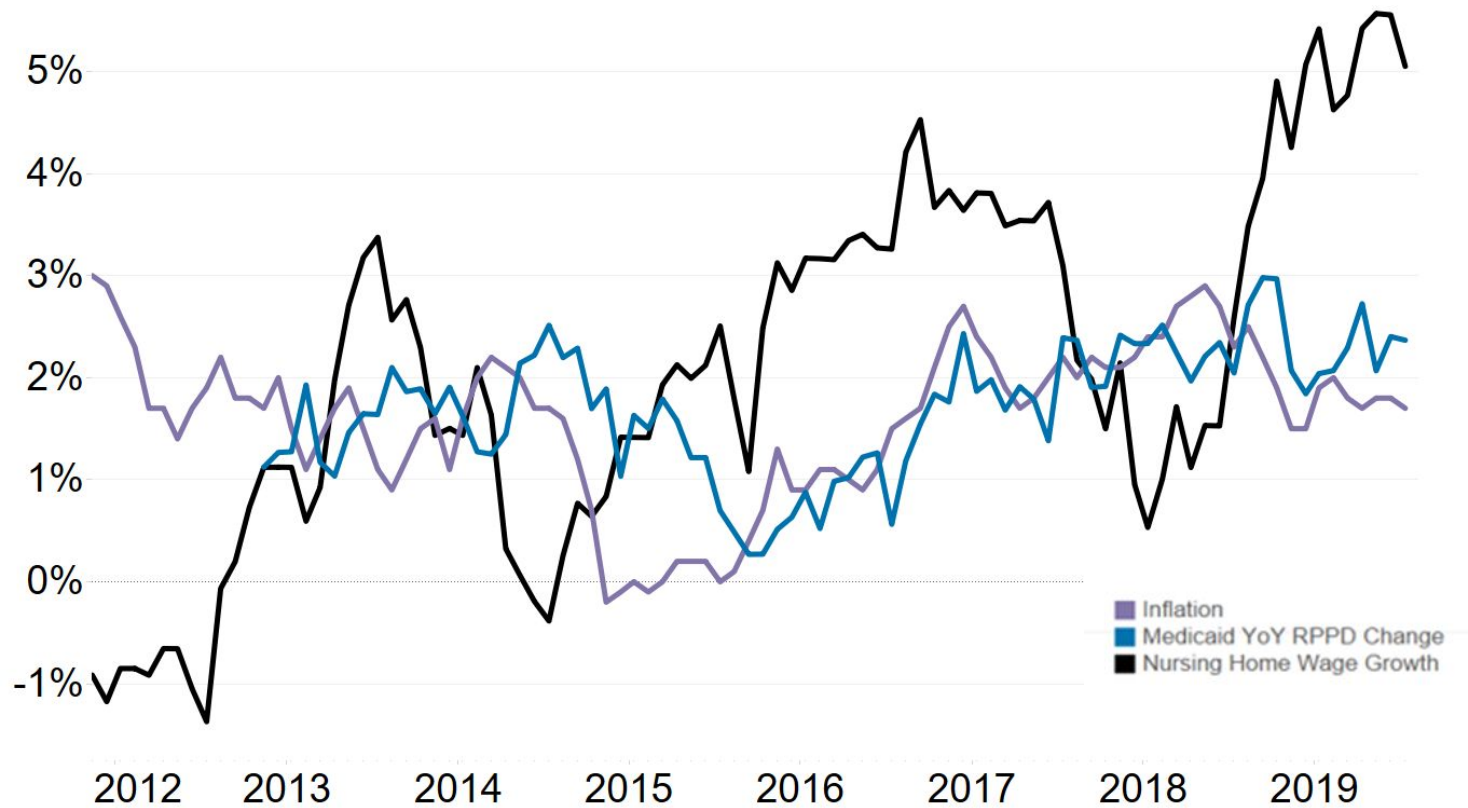
January 2012 – September 2019



Source: NIC Skilled Nursing Data Initiative

Nursing Home Wage Growth Remained Elevated

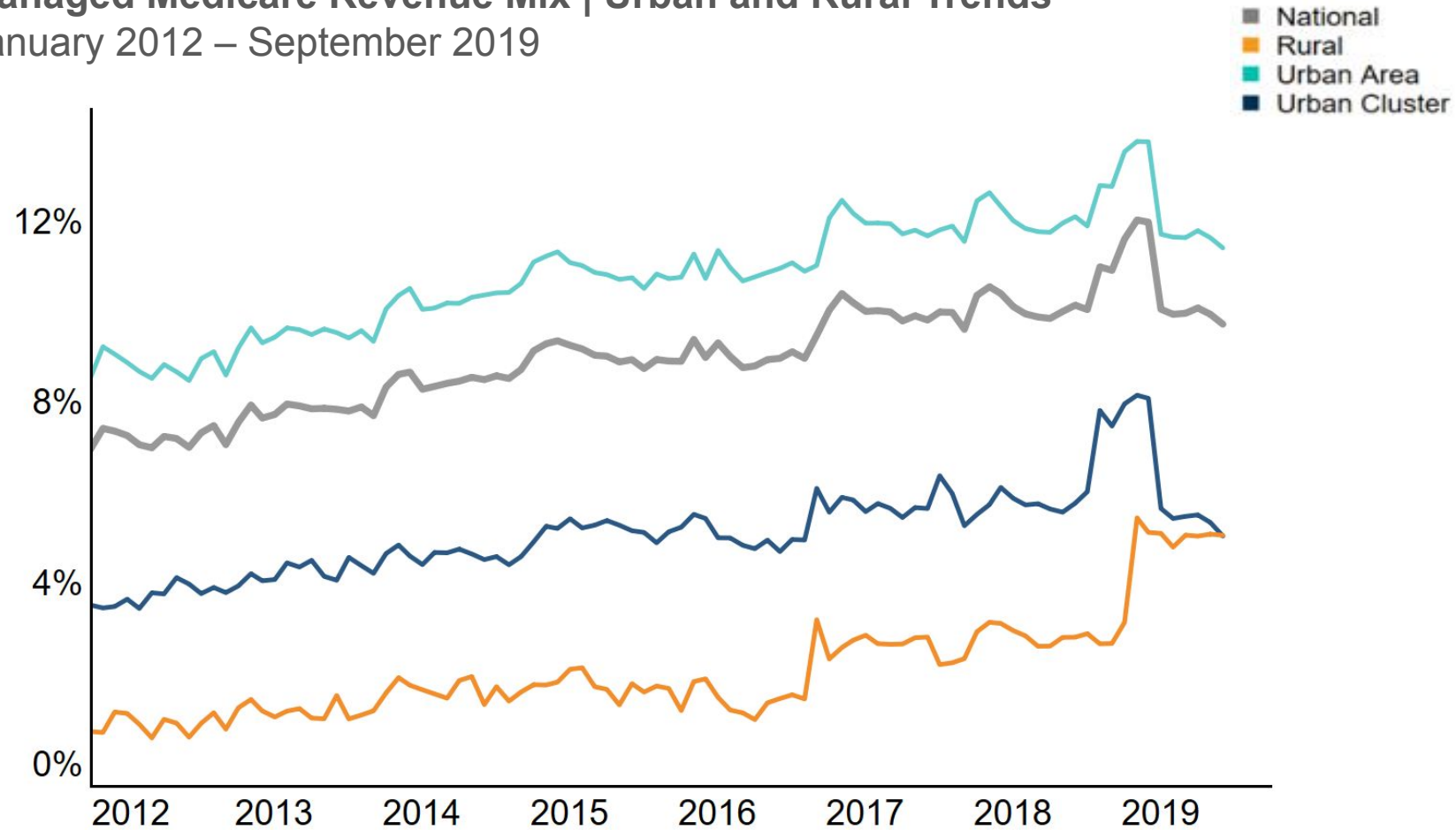
Nursing Home Wages, Inflation & Medicaid RPPD Year-Over-Year Change
January 2012 – September 2019



Source: NIC Skilled Nursing Data Initiative, Bureau of Labor Statistics

Managed Medicare Revenue Mix Declines

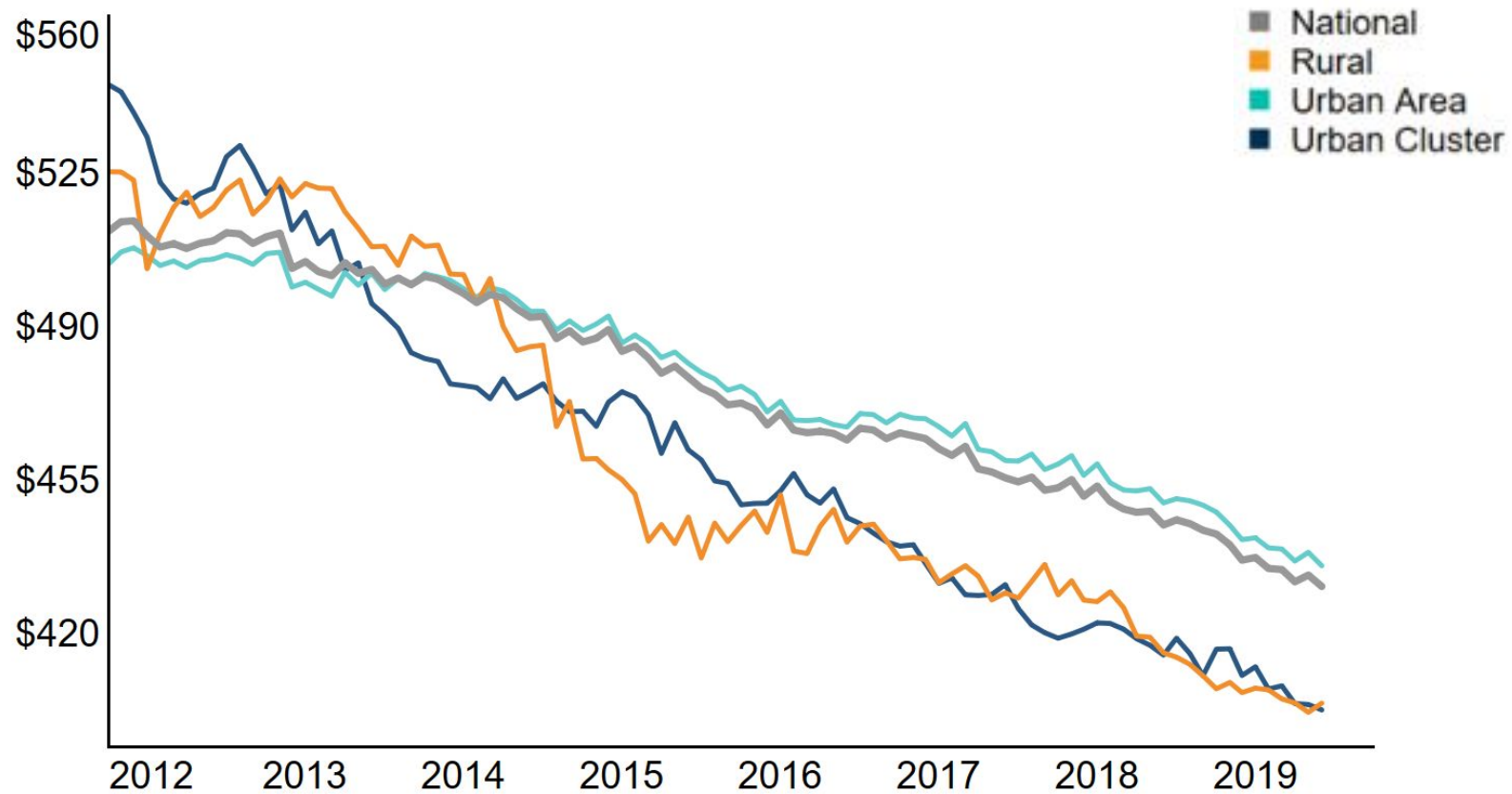
Managed Medicare Revenue Mix | Urban and Rural Trends
January 2012 – September 2019



Source: NIC Skilled Nursing Data Initiative

Managed Medicare RPPD Continues Decline

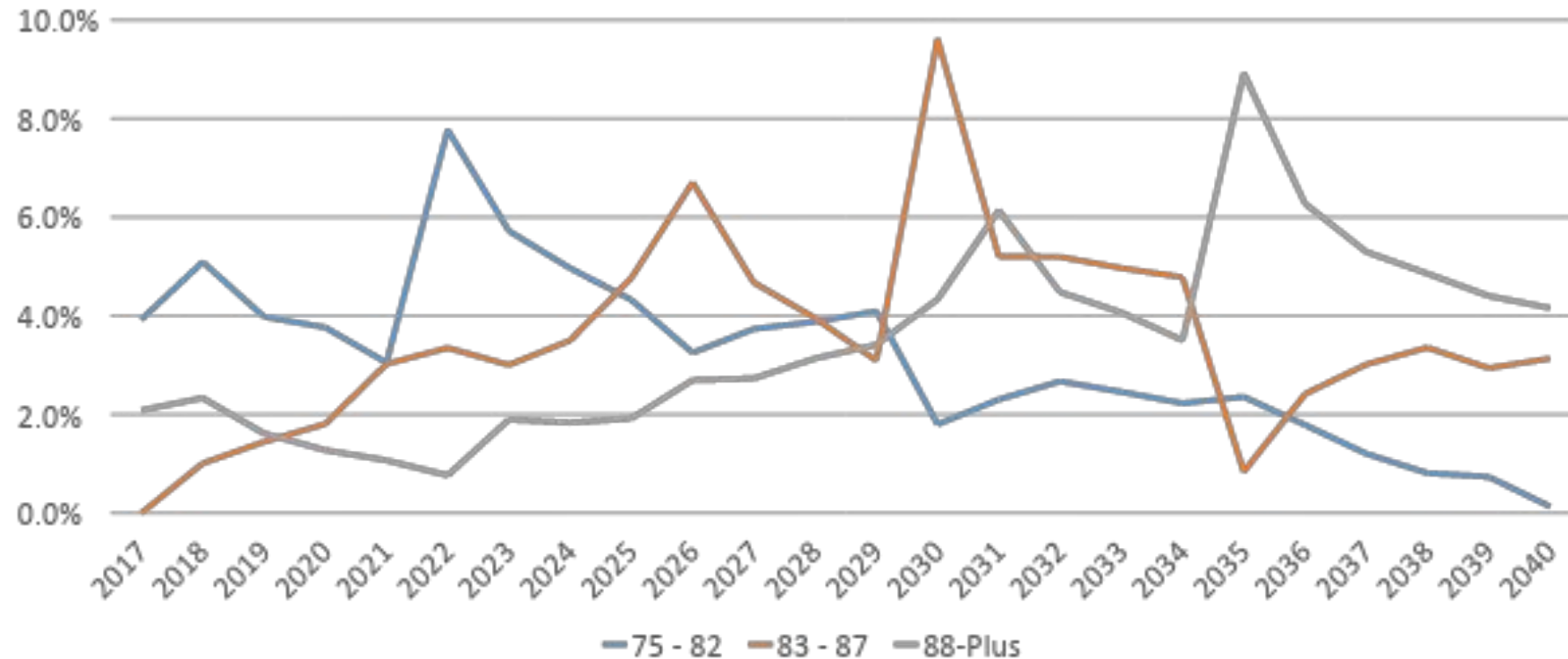
Managed Medicare Revenue Per Patient Day | Urban and Rural Trends
January 2012 – September 2019



Source: NIC Skilled Nursing Data Initiative

The 2020 Decade – Exponential Demand Growth?

Growth in 75-Plus Population by Select Cohorts 2017 - 2040



Source: U.S. Census Bureau Projections, 2017

NIC 2020 SPRING Conference

Investing in Seniors Housing & Healthcare Collaboration

March 4 – 6 • San Diego, CA

SAVE THE DATE!

Join over 1,500+ Seniors Housing & Care Executives

REGISTRATION OPENING IN NOVEMBER





2020 Industry Outlook

Trends Reshaping the Skilled Nursing Landscape

Avalere Health | An Inovalon Company
December 2019

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Full Impact of PDPM Becoming Clearer as We Head into 2020

Key Changes in the Patient Driven Payment Model (PDPM)

Removal of Therapy Minutes

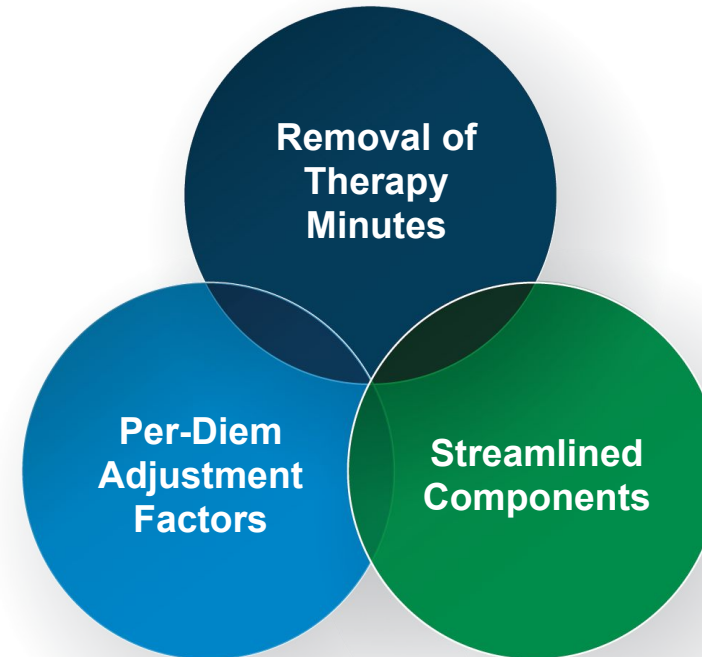
PDPM will remove the use of therapy minutes as a criterion for patient classification and payment.

Per-Diem Adjustment Factors

PDPM will trim reimbursement for specific components as the stay progresses, reflecting a decreasing level of care as a SNF stay progresses.

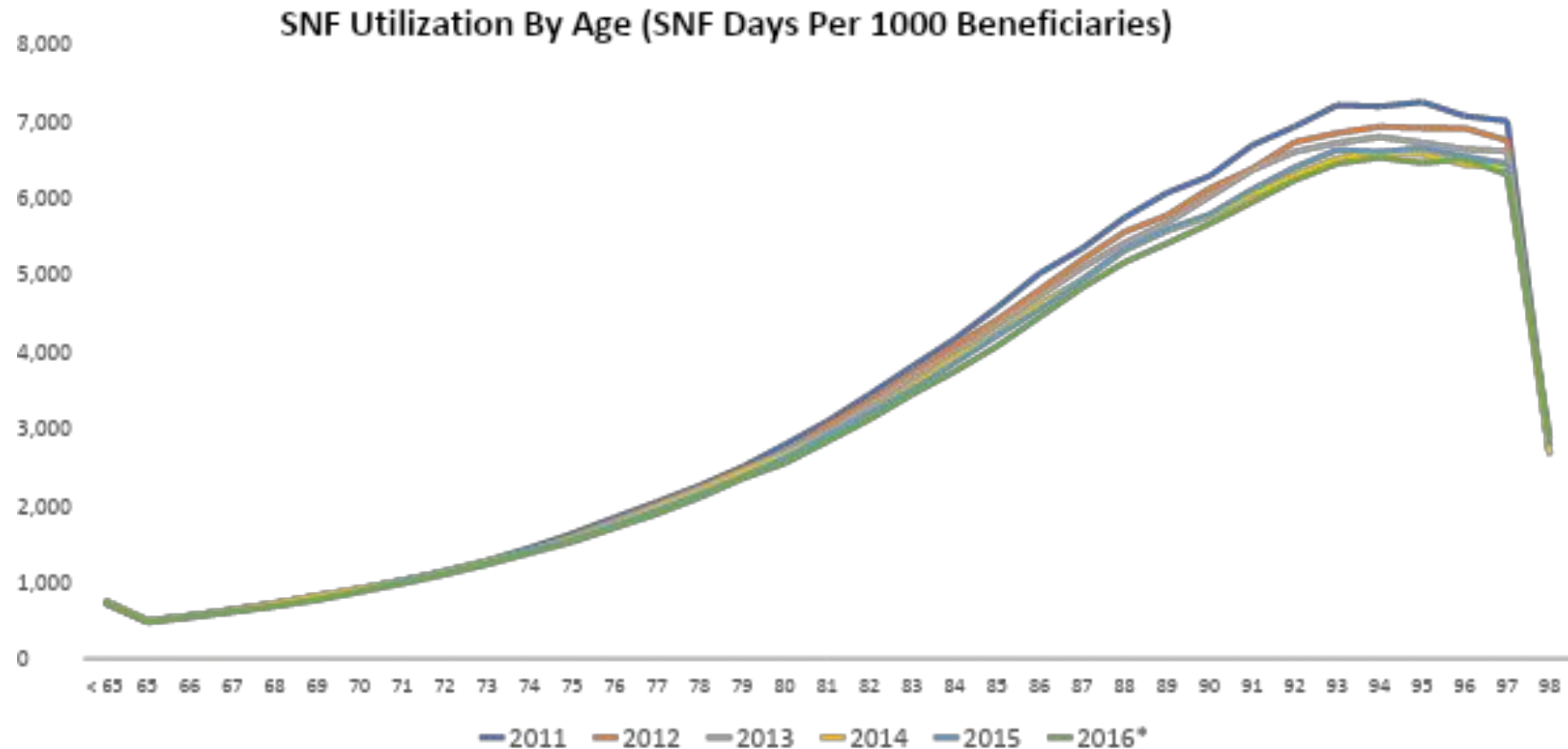
Streamlined Components

PDPM will decrease payment groups for several components to streamline classification process.



PDPM will maintain a per-diem structure and be implemented in a budget neutral manner, preserving the total aggregate payment to SNFs but varying in impact to individual facilities.

SNF Demand Likely to Expand as Full Force of Silver Tsunami Hits Medicare



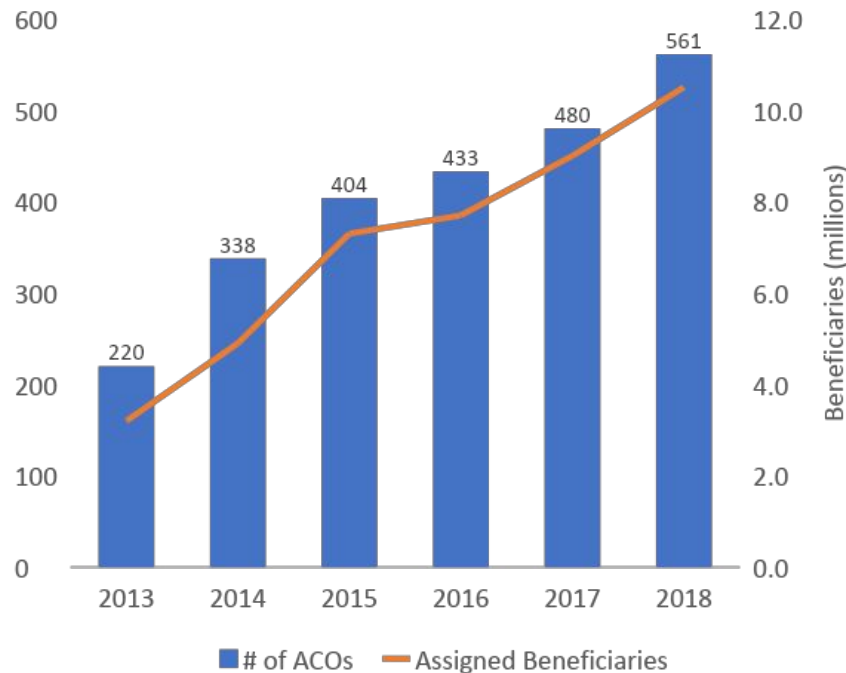
Source: Avalere analysis of Medicare Part A 100% Standard Analytic File (SAF) for the period 2015Q4-2016Q3

* Adjusted to account for level of completion of 2016 claims data



ACOs Making Their Presence Felt by the SNF Industry

Medicare ACO Program Participants Since 2013

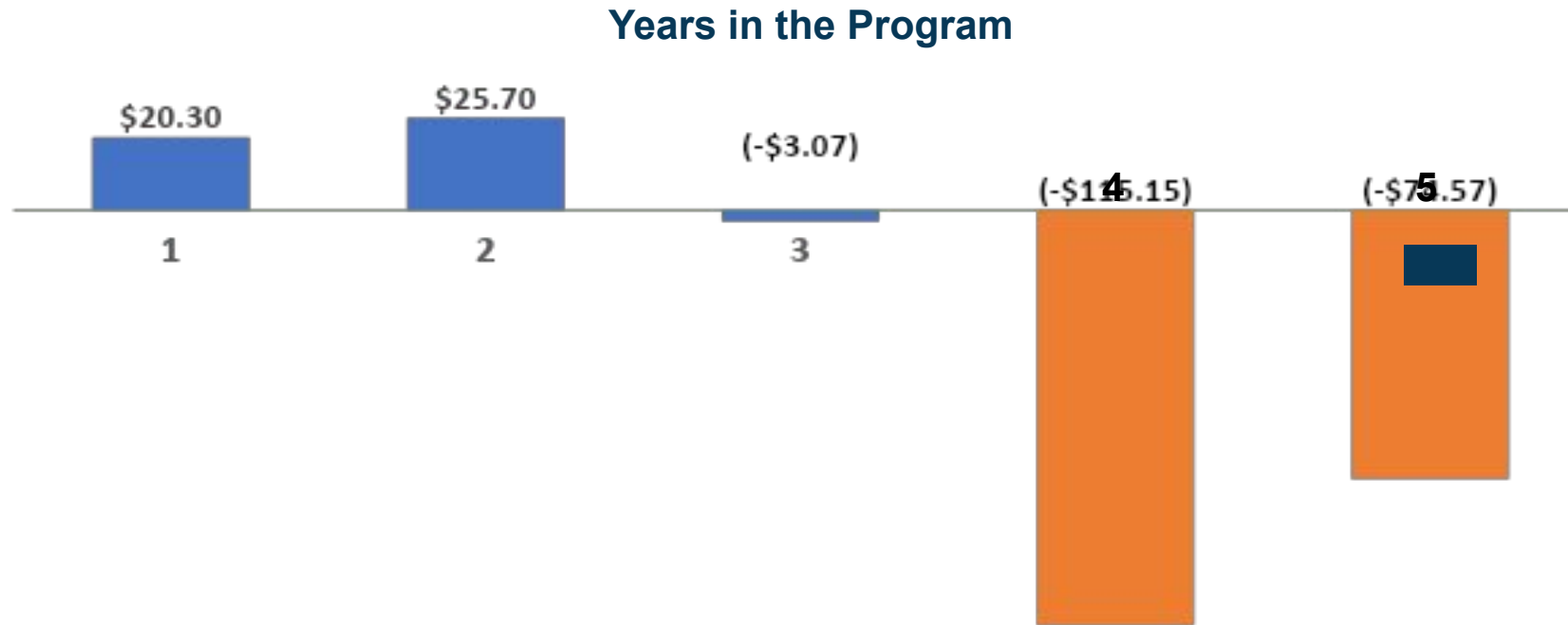


Key Elements of the 2018 MSSP ACO Overhaul

- **Days of “Upside Only” ACOs are Limited**
– CMS will require Track 1 ACOs to assume downside risk in the next 2 years
- **Consolidating the ACO Tracks** – CMS proposes to move from a multi-track arrangement to “Basic” and “Advanced” tracks
- **Continued Support for Key Waivers** – The proposed rule reinforces the need for the 3-Day waiver and other critical provisions

ACO Model Slowly Yielding Results

Net Change in Medicare Spending per Beneficiary by ACO's
Number of Years in the Program



ACO: Accountable Care Organization

Source: Avalere. "Medicare Accountable Care Organizations Generate Savings as Experience Grows."

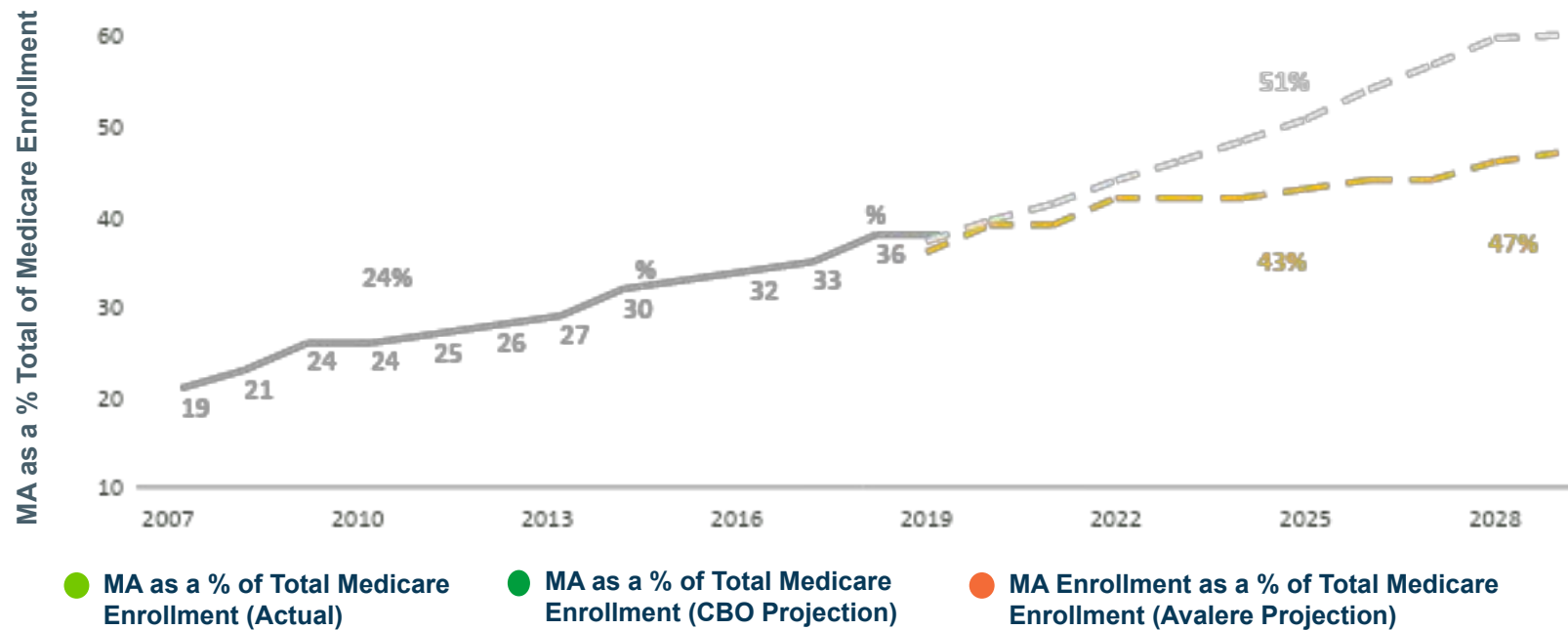
September 18, 2018. Available at:

<http://avalere.com/expertise/providers/insights/medicare-accountable-care-organizations-generate-savings-as-experience-grow>.



Medicare Advantage Expanding at a Rapid Clip

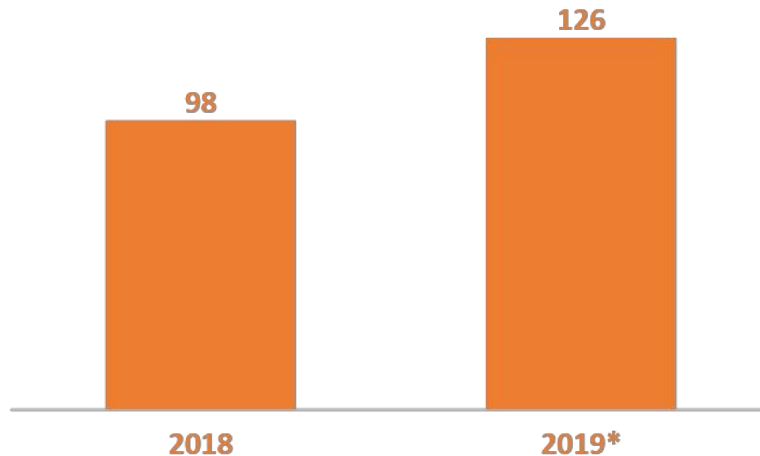
Medicare Advantage Growth Projections /



I-SNPs: An Opportunity for SNFs to Enter the MA Market

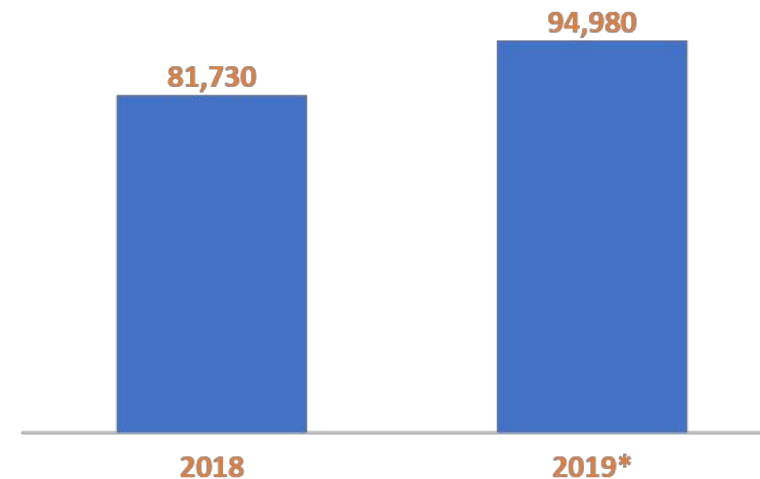
In the Last Year, the Number of I-SNP Offerings Grew By 29%...

Number of I-SNPs, 2018-2019



...Resulting in An 16% Jump in Number of Beneficiaries Enrolled

I-SNP Enrollment, 2018-2019

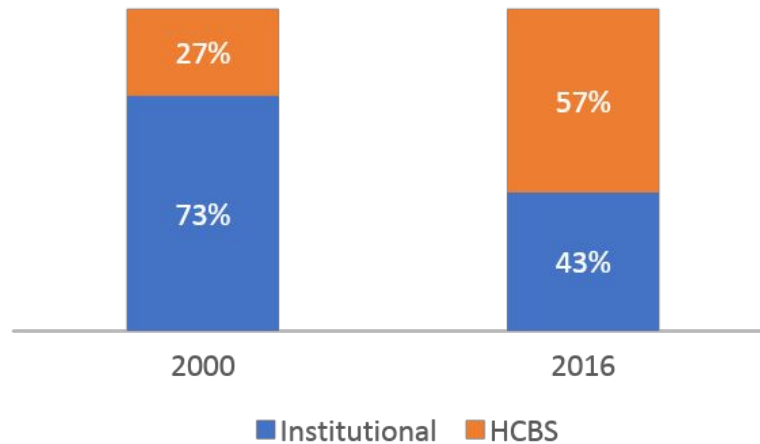


*Data as of October 2019

Source: CMS. Monthly Enrollment by Contract/Plan/State/County, Special Needs Plan (SNP) Data. Available [here](#).

States Increasingly Outsourcing Long-Term Care Services to Managed Care

Medicaid LTSS Spending Breakdown Institutional vs HCBS



In 2016, Medicaid spent \$167m on LTSS, 30% of total Medicaid spending

Medicaid Managed LTSS Expenditures In Billion Of Dollars, FY 2008 – 2016



The Best Approach to “Future-Proofing” – Solidify Your Value Proposition

Strategic Priorities for Provider Executives

Consistently Deliver Efficient, High-Quality Care

- How are we performing on readmissions, ALOS, total cost of care relative to our competitors?
- How do we ensure that we are delivering 5-star value to our patients?
- Are we at risk of being locked out of narrow networks due to our cost and quality performance?

Develop Differentiated Clinical Capabilities

- What can we bring to the table in terms of unique clinical capabilities?
- Are we uniquely well-equipped to manage high-cost patients?
- What other assets (e.g., data/analytics, care management) can we offer to plans to help manage complex patients?

Gain Experience Managing Financial Risk

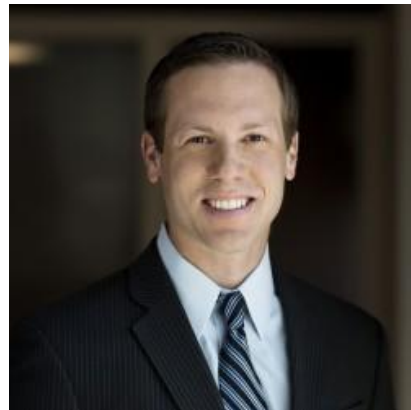
- What infrastructure and skill sets do we need to develop to excel in risk-based payment models?
- What’s the optimal path forward for assuming greater financial risk?
- Which health plans represent the best partners for us?





2020 SNF Market Outlook

Analyzing and Valuing Skilled Nursing Communities for Sale and Purchase



Matthew Alley

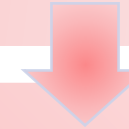
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www.slibinc.com



SENIOR LIVING INVESTMENT BROKERAGE

Analyzing and Valuing Skilled Nursing Communities for Sale and Purchase

Identify Key Variables that Impact Value



Approach and Methodology Buyers Use to Determine Value

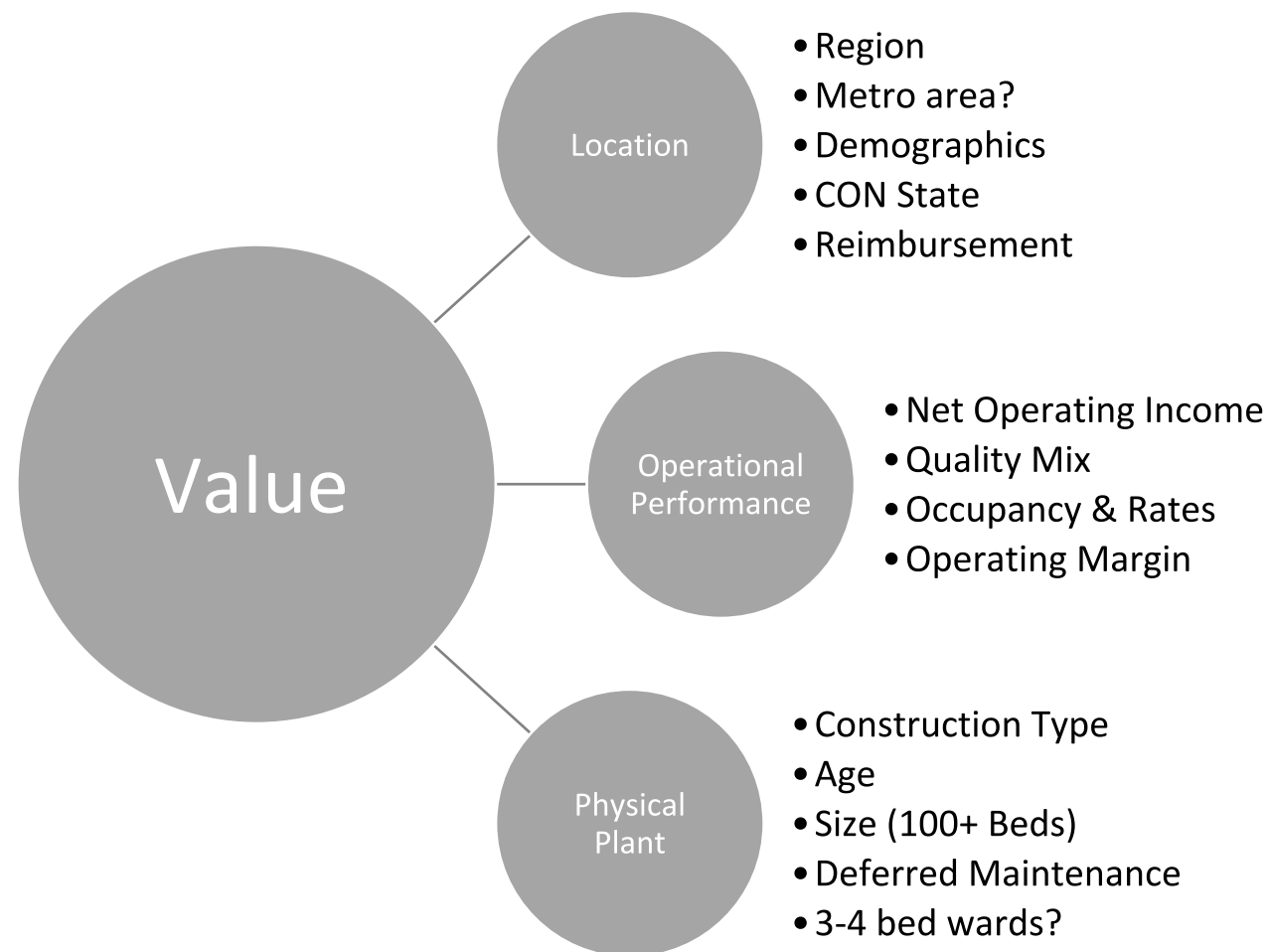


Valuation Matrix



Recent Sales

Key Variables in Determining Value



Approach Used for Valuation



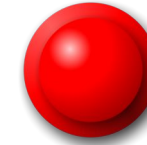
Income Approach

(Capitalization Rates,
EBITDAR)



GIM

(Gross Income Multiplier)



Sold Comparables

Other Factors to Consider:

- Portfolio vs. Single Asset
- Current Rates & Occupancy Compared to Market
- Stabilized vs. Value Add
- Historical Financials vs. Pro Forma
- Ability to Finance the Facility

Biggest Concerns with Skilled Nursing Valuation

Uncertainty of Future Medicare Reimbursement

Shorter Length of Stays

Tightening of State Budgets

State by State

Overbuilding

Especially the
“Transitional Care”
Model

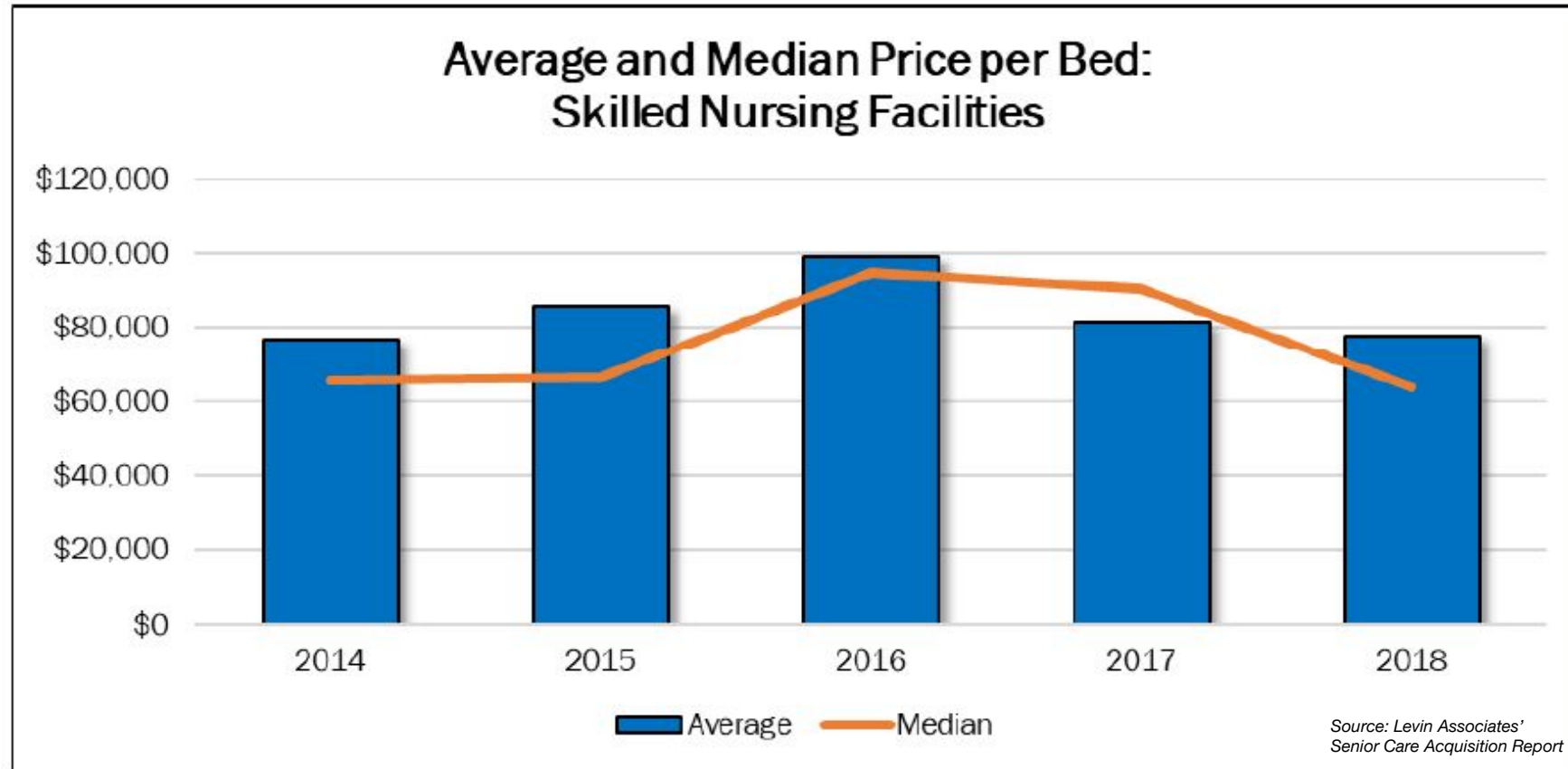
PDPM Could Force Smaller Operators to Sell

Cannot Keep Up with
Technological
Improvements;
Additional Supply on
the Market

Functional Obsolescence

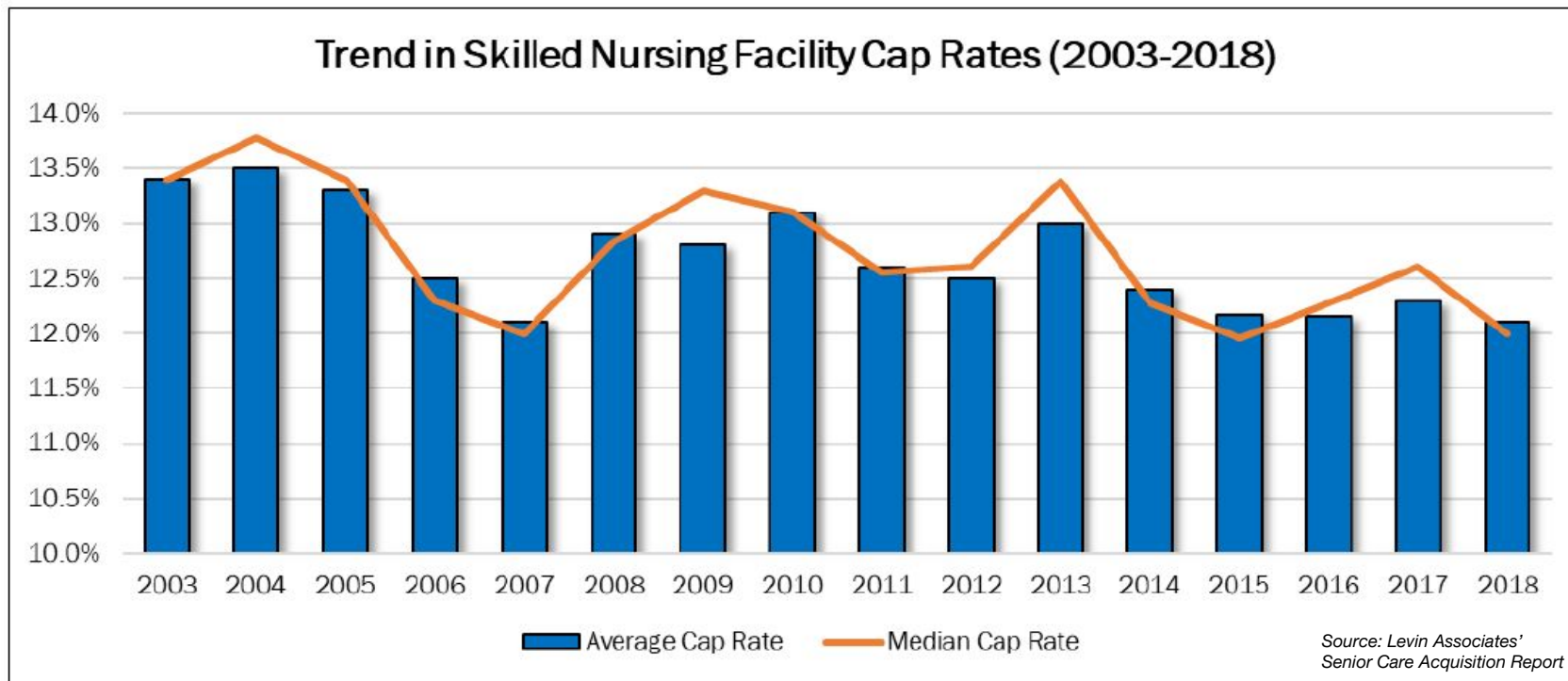
Many 40+ Year Old
Buildings Have 3-4 Bed
Wards

Valuation Detail



Despite pressures on Skilled Nursing industry, pricing remains fairly consistent.

Valuation Detail



Pricing for performing SNFs has not changed much in the past 4-5 years.

Recent SNF Sales

Stabilized properties sold at significantly higher price per bed than non-stabilized:

Stabilized

- 186 Bed, 50 year old SNF in Pennsylvania - \$115,000 / Bed
- 174 Bed, 19 year old SNF in Reno, Nevada - \$78,000 / Bed
- 256 Bed, 11 year old SNF Pair in Central Texas - \$80,000 / Bed

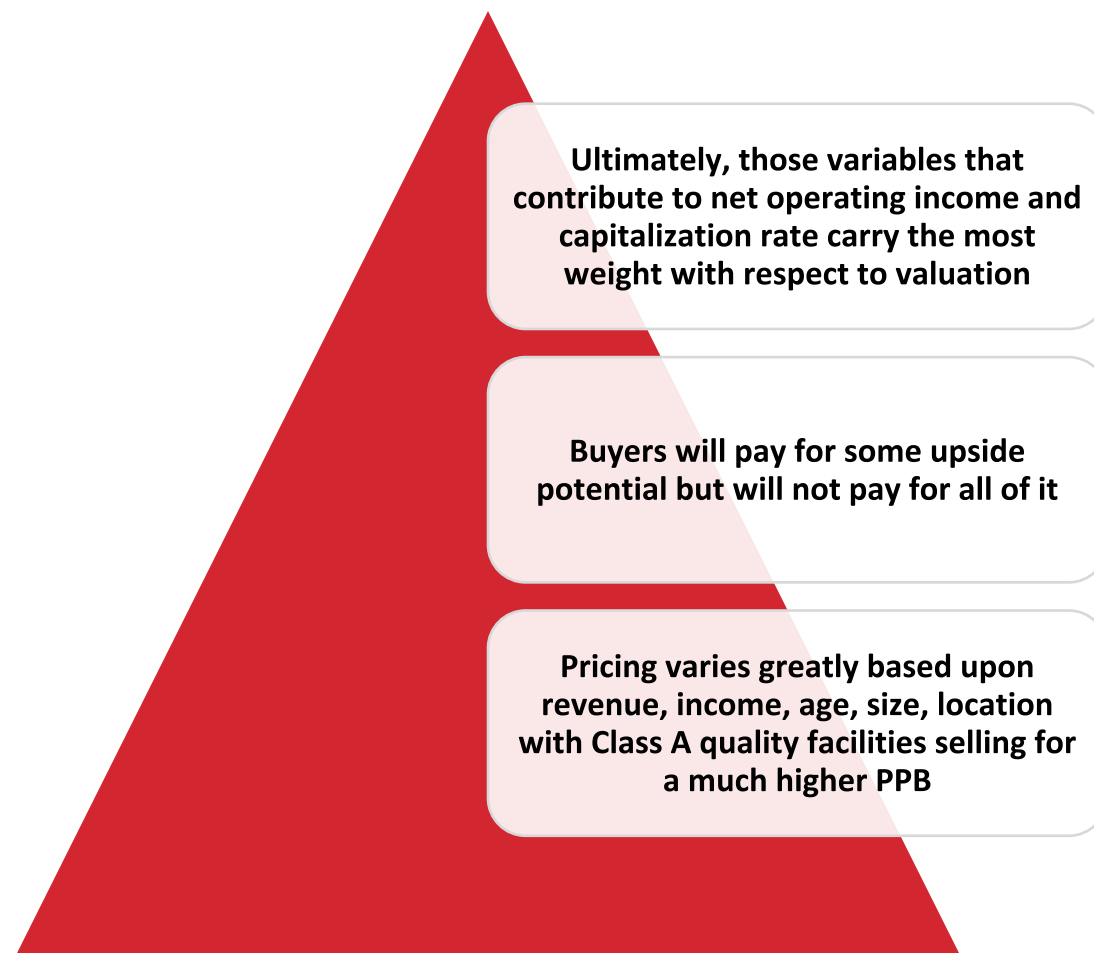
Non-Stabilized

- 174 Bed, 11 year old SNF in Central Texas - \$43,000 / Bed
- 116 Bed, 48 year old SNF in North Texas - \$13,000 / Bed
- 176 Bed, 2 SNF Pair in Central Tennessee - \$49,000 / Bed
- 85 Bed, 42 year old SNF in Kentucky - \$62,000 / Bed
- 28 Bed, 55 year old SNF in New York - \$33,000 / Bed
- 180 Bed, 16 year old SNF in Central Florida - \$135,000 / Bed

Under Contract

- 216 Bed SNF Pair in Connecticut - \$35,000 / Bed
- 170 Bed SNF in Alabama - \$65,000 / Bed
- 280 Bed SNF in New York - \$125,000 / Bed

Middle Market Skilled Nursing Facility Valuation Variables





Senior Living Investment Brokerage

Specializing in the **confidential** sale of seniors housing:

SNF
Skilled Nursing
Facilities

ALF
Assisted Living
Facilities

MC
Memory Care

ILF
Independent Living
Facilities

CCRC
Continuing Care
Retirement
Communities

Nationwide Coverage. Over \$5 Billion Sold.
15 Brokers & 6 Analysts.

Q&A