



LIMITLESS

2023 ANNUAL CONFERENCE

MAY 17-19, 2023

We-Ko-Pa Conference Center • Scottsdale, Arizona

ArizonaLeadingAge.org



YOUR SPEAKERS



Mary Muñoz
Senior Managing Director
Ziegler
(800) 327-3666
mmunoz@ziegler.com



Daren Bell
Director
Ziegler
(312) 596-1549
dbell@ziegler.com





LEARNING OBJECTIVES

- Understand potential steps to take if your business model is not sustainable.
- Learn how various organizations made different choices to grow or change, and why.
- Gain insights into a bankruptcy case and what happens to buildings and resident contracts.

Sustainable Organizations: Building Blocks





SUSTAINABILITY HEADWINDS TODAY

Occupancy (Covid)

Labor Shortage/Cost

Healthcare (++Covid)

Higher Interest Rates (Debt)

Changing Consumer Preferences





WHAT'S GOING YOUR WAY

Demographic Wave
Still Underserved Markets

All Kinds of Technology Solutions
Continue to Evolve

Wellness Approaches Hold Promise
in Reducing Healthcare Cost

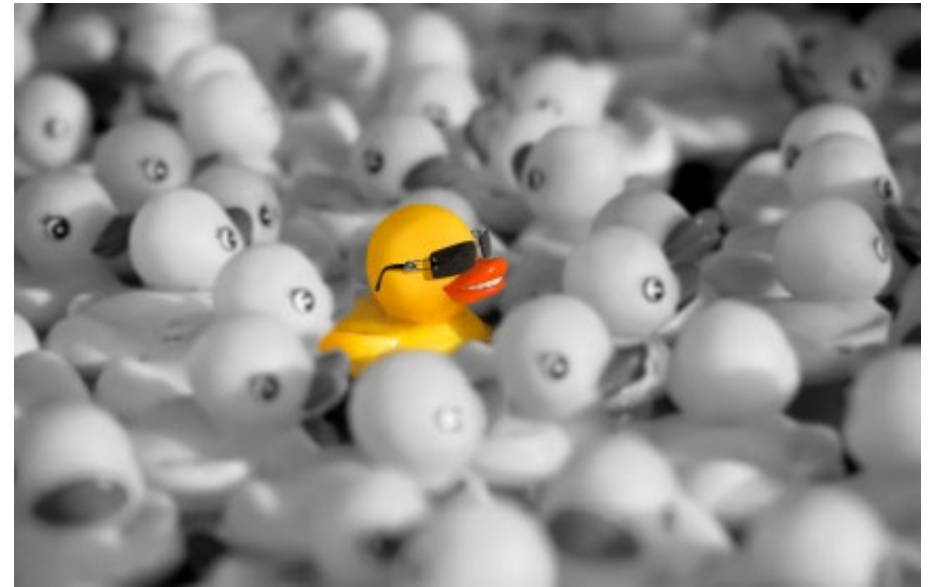
Higher Interest Rates (Investments)





CHARACTERISTICS OF SUSTAINABLE ORGANIZATIONS

- Profitability, measured including philanthropy
- Cash reserves, including for growth and/or redevelopment
- Located in an area demographically consistent with needed pricing, services, labor pool, etc.
- Solid competitive market position
- Ideally not land-locked
- Nimble and strategic Board and leadership team who are **ALIGNED** and willing to innovate and take risk
- Continual investment in physical plant



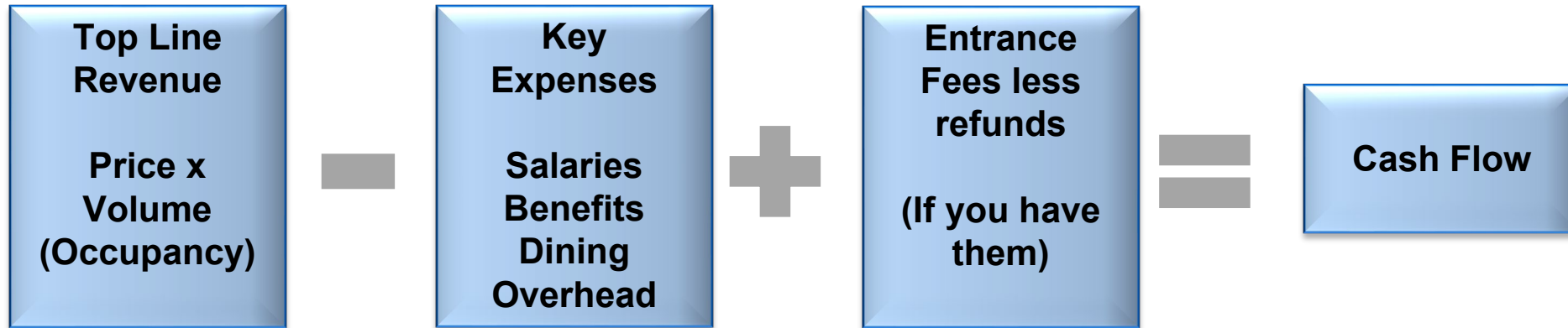


RED FLAGS THAT COULD SIGNAL TROUBLE AHEAD

- Occupancy has dropped and not showing signs of recovery
- Significant operating losses for two or more years,
- Dwindling financial resources to cover operating losses
- Struggles to provide competitive wages compared to others in your market area
- Payments to vendors are late or being extended
- Difficulty producing consistent, accurate financial statements on a timely basis
- No meaningful upgrades to physical plant in the past 10-15 years, with limited resources to invest



BACK TO THE BASICS



Cash Flow needs to cover debt payments, capital expenditures, reserves for the future, and funding for growth initiatives.



KEY DRIVERS OF A STRONG INCOME STATEMENT - REVENUES

- Three main types of revenue:
 1. Resident revenue
 2. Charitable contributions
 3. Investment income



What Can You Control?



- Investment income
 - Investment policy
 - Capital planning
 - “the MARKET”
- Charitable donations
 - Source?
 - Predictability?



REVENUES YOU CAN CONTROL

Resident Revenues

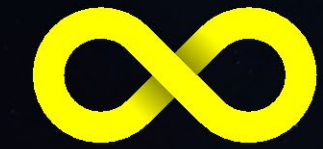


Price

- Monthly fee increases
- Entry fee increases
- Refundability provisions
- Outside admits?
- Leases and ancillary

Volume

- Length of time to fill vacated units
- Unit turnover (voluntary/involuntary)
- Moving through the continuum
- Waiting list management
- Actuarial data



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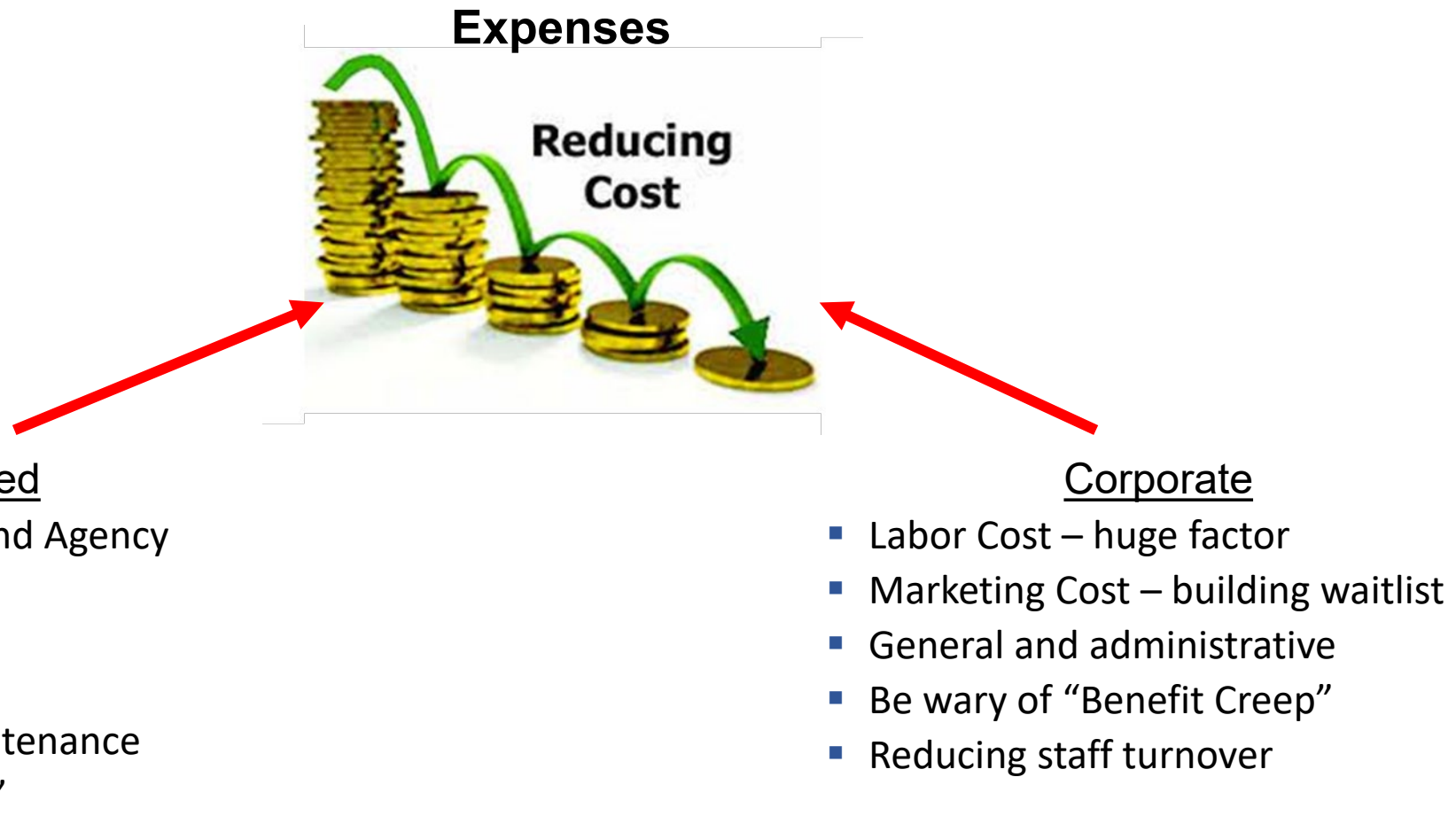
RESIDENT MONTHLY FEE INCREASES

– APRIL 2023

Percentage Increase to Independent Living Monthly Fees					
	2023	2022	2021	2020	2019
Minimum	0.00%	0.00%	0.00%	0.00%	0.00%
1 st Quartile	5.00%	3.50%	2.71%	2.90%	3.00%
Median	6.00%	4.48%	3.00%	3.00%	3.00%
3 rd Quartile	7.90%	5.50%	3.75%	3.90%	3.80%
Maximum	13.00%	15.00%	12.00%	10.00%	6.88%
Average	6.32%	4.70%	2.98%	3.26%	3.14%

- The 6.00% median increase in 2023 is the highest percentage increase since Ziegler began collecting data more than a decade ago
- The projected 2023 median increase (from Fall 2022) was 5.00%

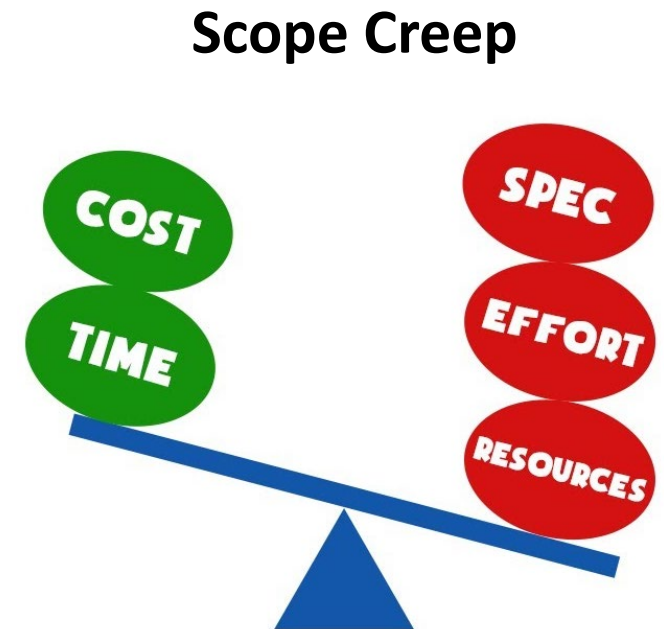
OPERATING EXPENSES





MONTHLY SERVICE FEE ALTERNATIVES

- Unbundle services
- Flexible spending amount – “Resort credit”
 - Meal services
 - Spa
 - Salon
 - Excursions
 - Transportation
- Discounted monthly fee while in independent living (only) in exchange for lower entrance fee refund





BENCHMARKS MAY BE HELPFUL

- ***Numerous resources are provided at the end of this slide deck***
- Broadly speaking, labor comprises
 - 30-45% of revenue for CCRCs
 - 25-30% for pure independent living, and
 - 40-50% for more health-care centric models such as assisted living and memory care. Skilled nursing labor is more nuanced (see added slides).
- Net operating income margins (excluding COVID stimulus funds):

Type of Community	NOI Margin
Independent living	25-35%
Independent + Assisted Lvg	17-32%
Independent +Asstd+Memory	17-31%
Assisted Living Only	5-28%
Assisted+Memory	6-23%
CCRCs	23-45%

Source: The State of Seniors Housing 2022

**On a
downward
path? What
can you do?**





FOR THOSE WHO CANNOT SUSTAIN...

- Intervention leading to major change in business model and/or location - RARE
- Change in leadership (can be third-party manager)
- Change in Board
- Change in ownership altogether – affiliation, or sponsorship transition, or outright sale
- Joint ventures/partnerships to change revenue mix/cost structure
- Last resort: Bankruptcy or Closure





SPONSORSHIP TRANSITION/ AFFILIATION VS. MERGER/SALE

AFFILIATION OR SPONSORSHIP TRANSITION

- Affiliation describes a relationship between two or more parties; usually the two parties remain separate corporate entities, although one generally “controls” both
- Control is usually in the form of restructured Articles of Incorporation & Bylaws and a management contract; often the affiliator becomes the sole corporate member of the affiliatee
- Typically all assets and liabilities are included in the transaction
- Capital may or may not change hands; sometimes the affiliator commits to \$x of capital support invested immediately or over time
- The affiliatee may or may not join an existing obligated group for financing/refinancing purposes
- This structure is for two not-for-profits



SPONSORSHIP TRANSITION/ AFFILIATION VS. MERGER/SALE

MERGER, ACQUISITION, SALE

- A merger is a combination of two entities into a single entity
- In an acquisition, one entity generally acquires the assets of another entity and either combines everything in the acquirer, or acquirer creates a new entity which assumes ownership of the acquired assets
- Assets and liabilities may be acquired in whole or in part
- Capital typically changes hands based on third-party valuations/appraisals of the assets and liabilities being purchased
- May involve a for-profit and a not-for-profit, 2 for-profits or 2 not-for-profits



PRIMARY DRIVERS OF NOT-FOR-PROFIT CONSOLIDATION

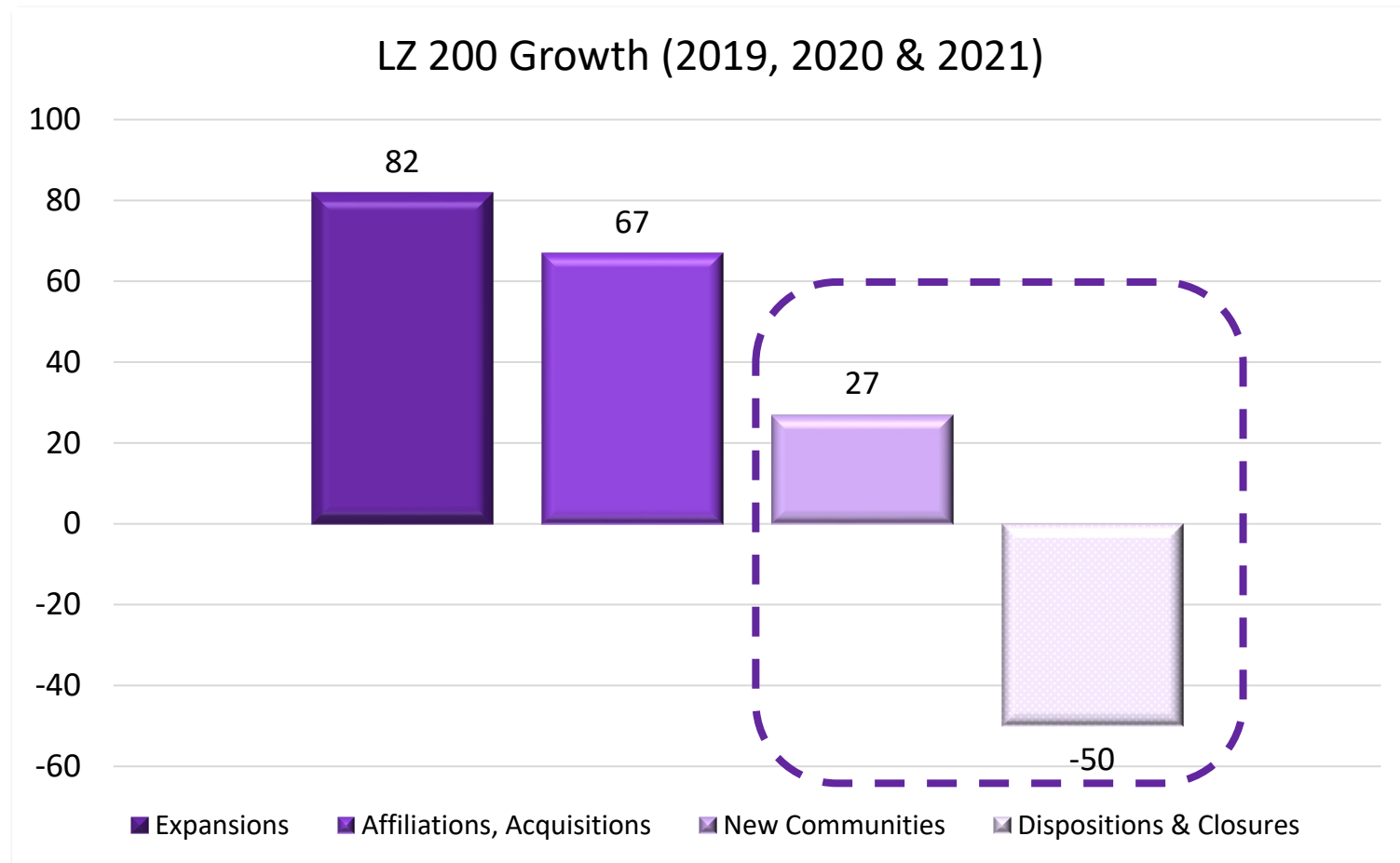
	1990	2000	2010	2022
Ability to Attract & Retain Talent		✓	✓	✓
Complexities of Healthcare		✓	✓	✓
Financial Pressures			✓	✓
Leadership Turnover		✓	✓	✓
Competition	✓		✓	✓
Board Strength				✓
Technology Demands		✓	✓	✓
Access to Capital	✓		✓	✓
Reinvestment Requirements				✓
Health System Consolidation		✓	✓	✓
Diversify Service Lines				✓

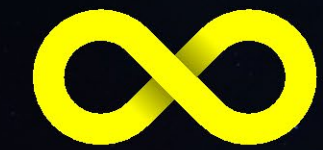
COVID-19
ACCELERATED



NOT-FOR-PROFIT SENIOR LIVING GROWTH OVER THE PAST THREE YRS

- Nearly all not-for-profit growth is coming from existing providers
- Number of closures and dispositions outpacing the number of new campus developments
- Increasingly, new developments without skilled nursing component





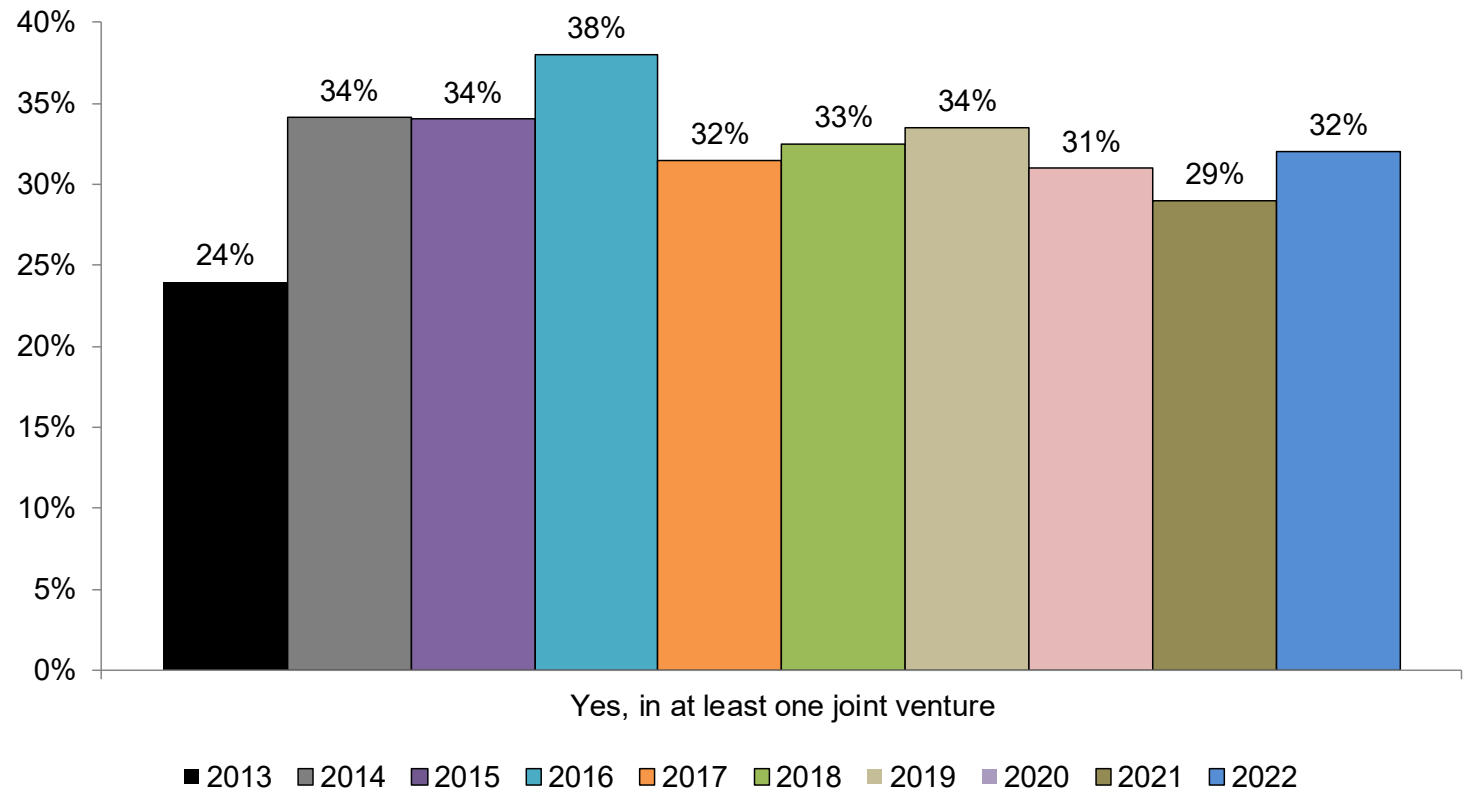
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2022 LEADINGAGE ZIEGLER 200 JOINT VENTURES

Most common

- Home health
- Home care
- Hospice
- PACE

PERCENTAGE ENGAGED IN A FORMAL JOINT VENTURE



Increase to LZ 150 with 2014 report; and increase to LZ 200 with 2018 report



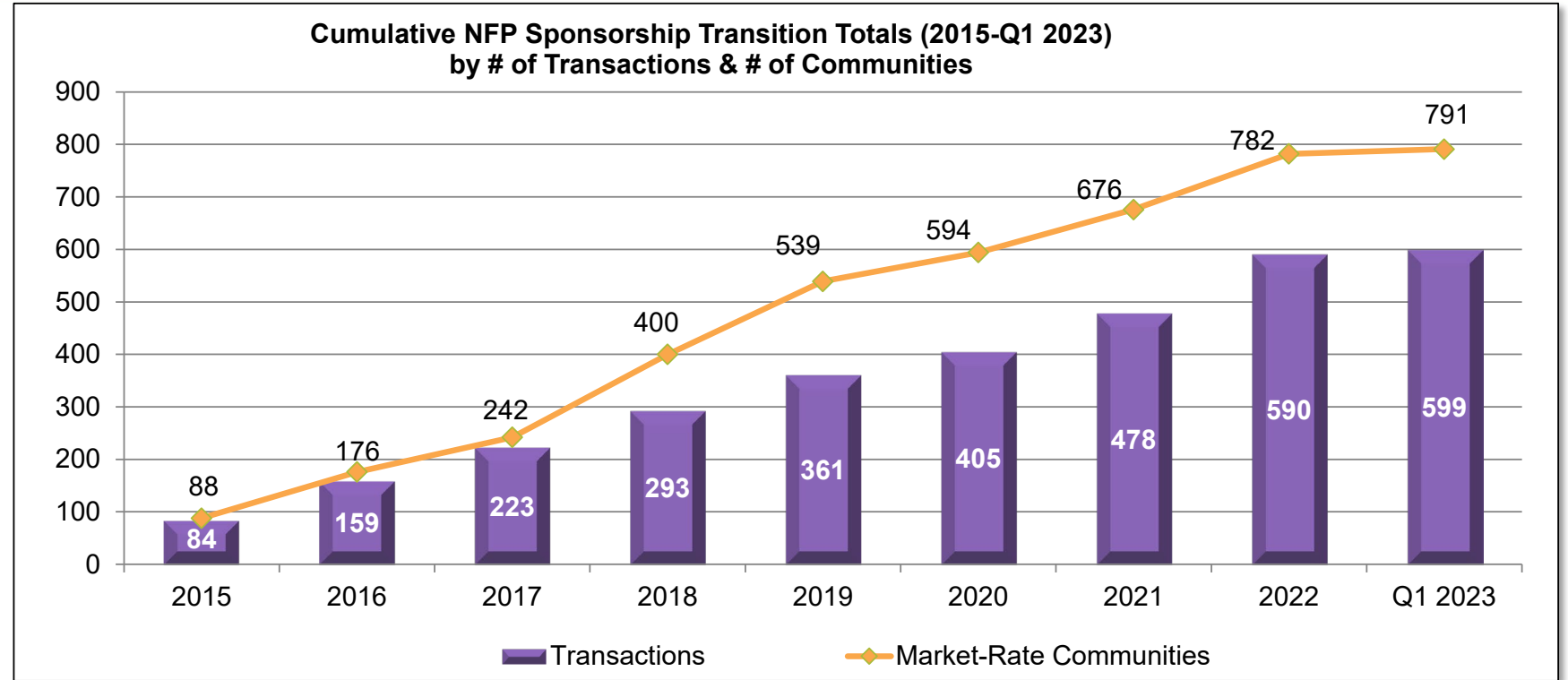
2022 LEADINGAGE ZIEGLER 200 JOINT VENTURE PARTNERS

Type of JV/With Whom	
Most Mentions	# of Mentions
Another NFP Senior Living Provider	56
Home Health/Home Care	27
Hospital/Health System/Mobile Medical	25
Physician's Group	19
Rehabilitation/Therapy	19
HUD/Affordable Housing	17
Hospice	17
Case Management	9
PACE	6
Church/University	5

64 responses, but multiple mentions

LIMITLESS *SECTOR CONSOLIDATION* (2015 – 2023 Q1)

- Since 2015, 50% have been dispositions to the FP sector (SNFs; distressed communities)
- LPCs are the most likely to stay NFP if up for ownership transition
- Increase in NFP closures the past two years



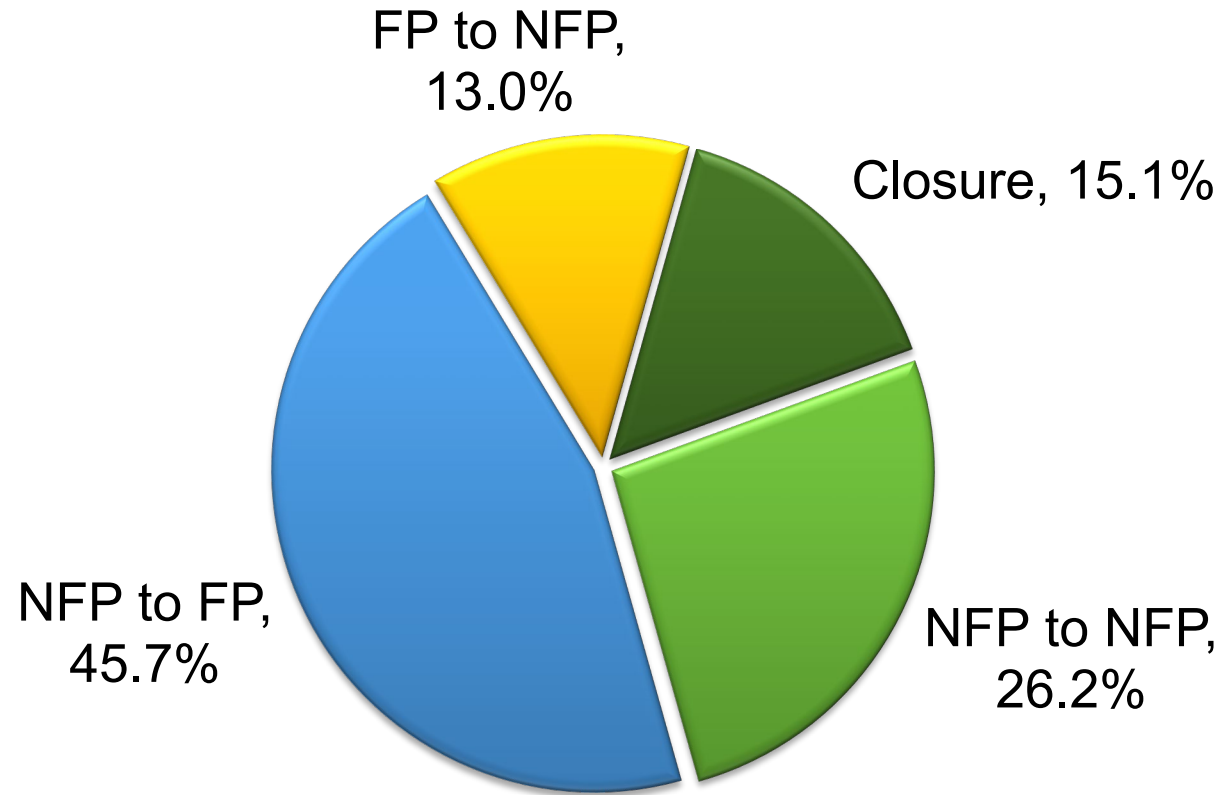
Note: Includes market-rate communities; excludes government subsidized; The ELGSS community count is also excluded from the community count (represents 160+ communities)



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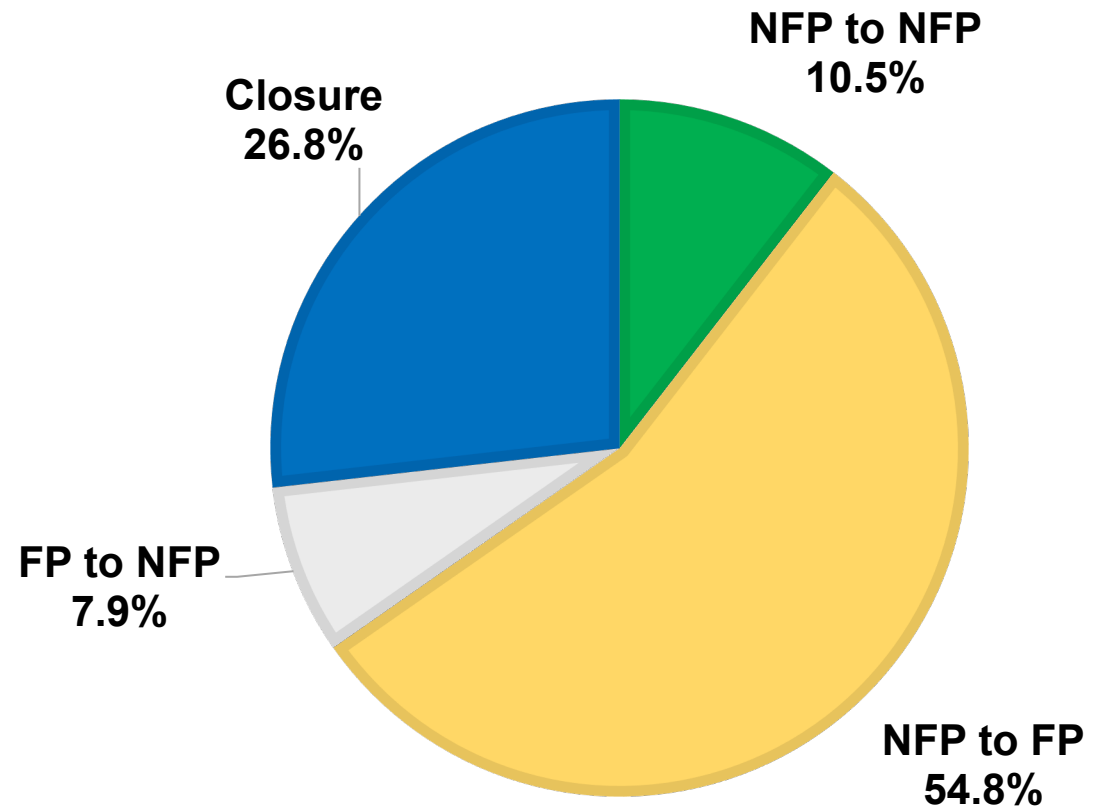
NFP CHANGE OF OWNER TRANSACTIONS; 2015-2023 Q1

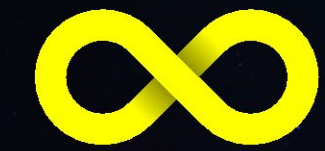
FP = for-profit
NFP = not-for-profit



NOT-FOR-PROFIT FREESTANDING **LIMITLESS NURSING HOMES 2015 TO 2023 Q1**

- Nearly 250 not-for-profit nursing homes have changed owner/sponsor or have closed since 2015
- Excludes CCRCs/life plan communities that have fully exited skilled nursing



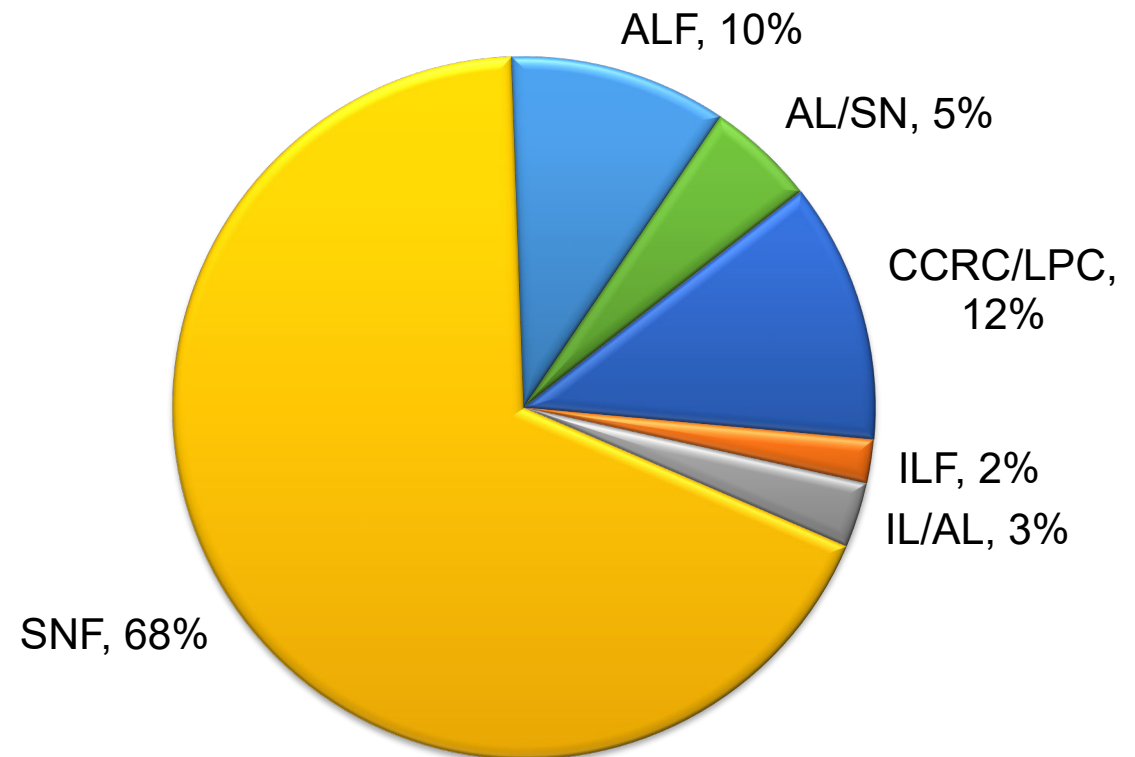


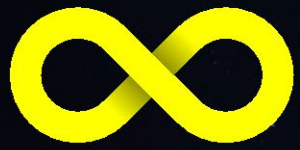
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A PROFILE OF NFP CLOSURES (2010-2023)

- Nearly 120 since 2010
- More than 40% of these closures have occurred since the onset of the pandemic in the year 2020
 - Financially challenged
 - Dated communities
 - Rural markets
 - Heavy healthcare pressures

NFP Closures (2010 – Q1 2023)





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LAST RESORT: BANKRUPTCY

CALIFORNIA-NEVADA
METHODIST HOMES



Altavita Village
AN ACTIVE RETIREMENT COMMUNITY



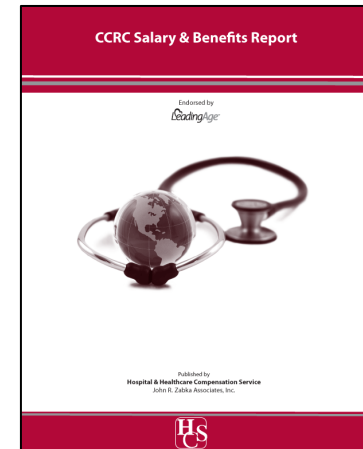
Benchmarking Sources





COMPENSATION

Report	Source	Cost?	Notes
LeadingAge CEMO Leadership Compensation Survey (CLA)	CliftonLarsonAllen	Yes	Only reflects multi-site organizations and C-Suite positions Based on survey respondents
CCRC Salary & Benefits Report	Hospital & Healthcare Compensation Service	Yes	Highest level is Exec. Director; Covers director-level as well as hourly positions; breaks down data by region and size Based on survey respondents
An Analysis of NFP Senior Living Executive Compensation	LW Consulting	No	Two reports: (1) Single-sites and (2) Multi-sites; Reflects C-Suite positions Obtained from 990s
State association surveys	State Associations in partnership	Varies	Surveys conducted among members





COMPENSATION

Multi-Sites

CEO		Data	Base	Bonus	Other	Deferred	Non-Tax	Total
Cohort	All Data	Average	359,092	107,111	71,996	43,040	20,703	506,802
		Median	322,817	61,811	19,000	16,887	18,321	411,400
	LZ 1 - 25	Average	437,451	126,385	71,693	48,022	20,219	638,013
		Median	454,623	95,469	29,886	18,037	17,360	600,812
	LZ 175-200	Average	249,922	48,825	19,743	17,311	20,024	298,740
		Median	265,424	42,105	16,595	9,526	17,144	302,269

Single-Sites

CEO		Data	Base	Bonus	Other	Deferred	Non-Tax	Total
Cohort	All SS Data	Average	251,298	46,857	23,050	18,210	16,351	314,656
		Median	243,951	2,773	0	9,753	11,101	281,345
	SS 1 - 25	Average	272,958	87,350	37,335	23,964	14,005	355,610
		Median	229,061	0	0	13,470	13,282	249,348
	SS 125 - 150	Average	244,860	40,049	12,009	22,775	13,786	302,928
		Median	229,756	1,750	0	11,651	12,251	267,019
	LZ 200	Average	359,092	107,111	71,996	43,040	20,703	506,802
		Median	322,817	61,811	19,000	16,887	18,321	411,400

LZ 200 data provided for comparison purposes only.

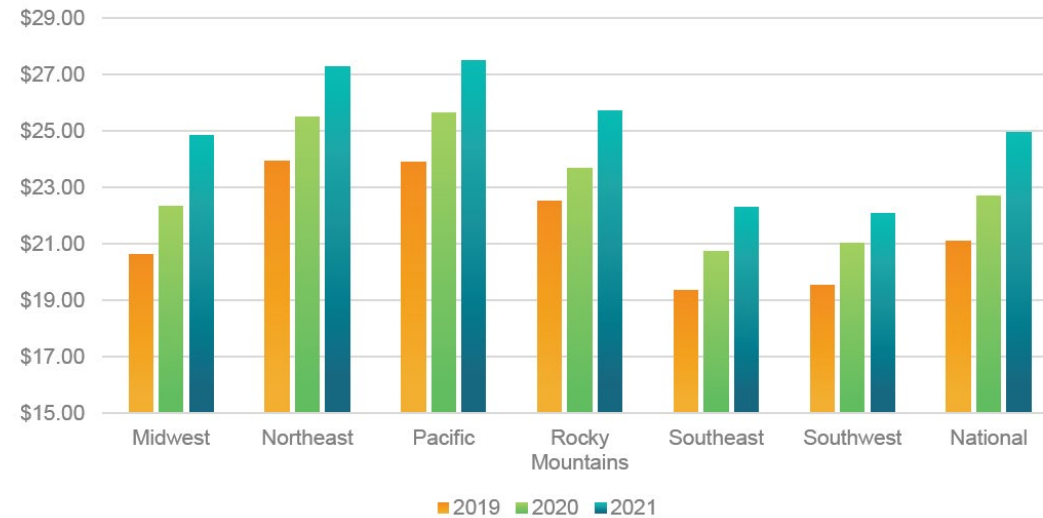


COMPENSATION: NURSING STAFF

2021 Hourly Compensation Averages:

RN: \$38.98
 LPN: \$29.62
 CNA: \$17.94

Nursing Hourly Wage



	2019	2020	2021
Midwest	20.62	22.34	24.83
Northeast	23.94	25.49	27.27
Pacific	23.91	25.64	27.50
Rocky Mountains	22.50	23.69	25.73
Southeast	19.37	20.74	22.31
Southwest	19.52	21.02	22.07
National	21.09	22.70	24.94




COST OF CARE


you plan for it.



Calculate the Cost of Care in your area

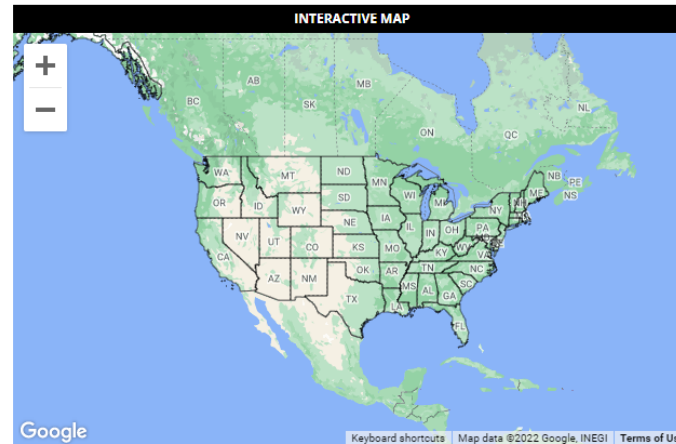
ENTER AND SELECT CITY, STATE OR ZIP CODE 

[Compare Location](#)

SELECT COST BY PERIOD 




CALCULATE FUTURE COST

2021 2031 2041 2051 2061 2071




- It's free!
- Interactive website
- Can drill down into metro market
- Current and projected

Monthly Median Costs: *National (2021)*

In-Home Care 		Community and Assisted Living 		Nursing Home Facility 	
Homemaker Services ¹	\$4,957	Adult Day Health Care ²	\$1,690	Semi-Private Room ²	\$7,908
Home Health Aide ¹	\$5,148	Assisted Living Facility ³	\$4,500	Private Room ²	\$9,034

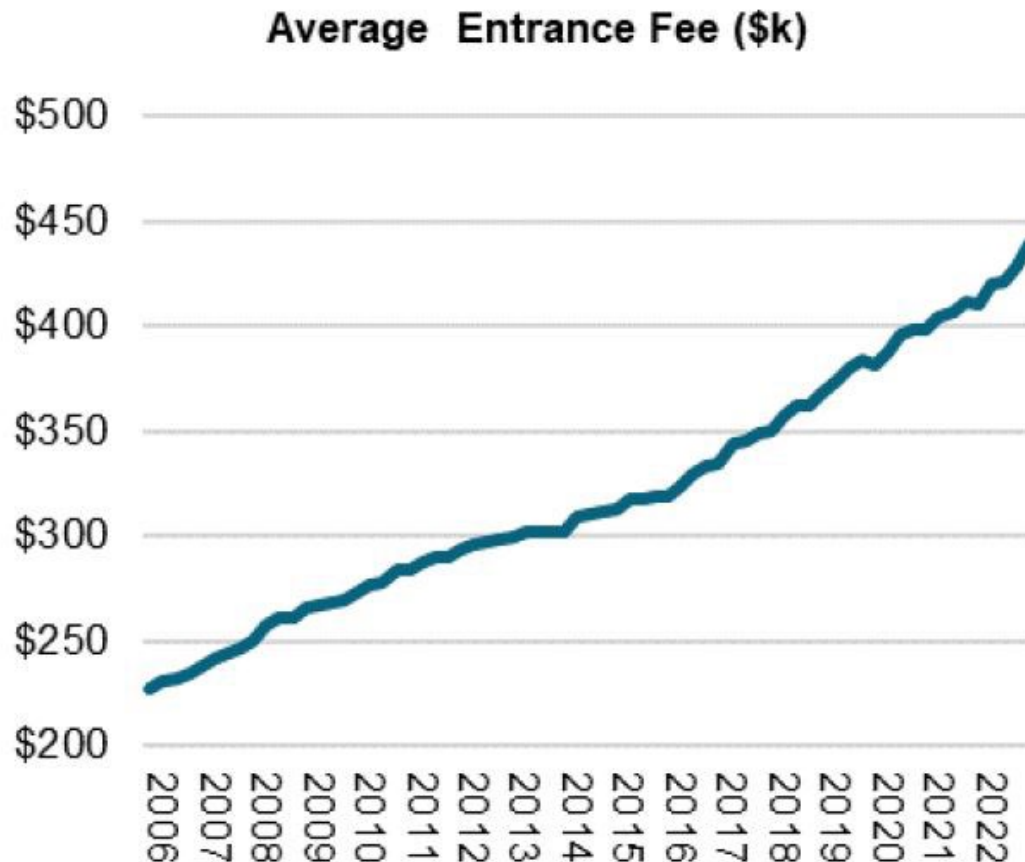
 Print to PDF

 Change weekly In-Home Care hours (Only available with Daily, Monthly, or Annual Cost by Period)

<https://www.genworth.com/aging-and-you/finances/cost-of-care.html>



CCRC ENTRANCE-FEE DATA



- Average Entry Fee increase accelerated in Q4 2022; year-over-year increase of 7.0% to \$439,606
- Highest annual increase in the last decade
- Entry Fee increase outpaced monthly fee year-over-year increase (4.4%)



CARF Accredited organizations

- Single-site vs. Multi-site Medians
- By Contract type

Exclusively for the use of Cathy Owen at Ziegler Capital Markets. Downloaded: U6-Sep-2022

FitchRatings

Public Finance
Healthcare
U.S.A.

2022 Median Ratios

Not-for-Profit Life Plan Communities Showing Recovery, but Challenges Lie Ahead

"Fiscal 2021 was a recovery year for LPCs, but challenges lie ahead for the sector."

Margaret Johnson, Fitch Ratings

Portfolio Overview

Fitch Ratings maintains public ratings on 158 life plan communities (LPCs) as of Aug. 5, 2022. The 2022 investment grade (IG) medians comprise 114 providers, while below investment grade (BIG) medians include 44 communities. The number of ratings has grown steadily over the past five years, as there were 99 and 28 IG and BIG ratings, respectively, in 2016.

The median rating is 'BBB', while the number of ratings in the 'BBB' rating category remains the largest at 81 (or about 51%), versus 31 (20%) in the 'A' rating category. The number of BIG ratings has steadily increased in recent years; this is mostly the result of new borrowers being added to Fitch's rated portfolio, rather than ratings being downgraded.

Within Fitch's median portfolio, Type A contract providers remain the plurality with 57 (about 36% of the portfolio), followed by Type C providers at 56 (35%) and Type B providers at 41 (26%). Median data by contract type exclude providers offering rental or month-to-month residency agreements.



Fitch-Rated Credits

- By Rating Category
- Single-site vs. Multi-site Medians
- By contract type



COVID-19 IMPACT ANALYSIS FOR NFP CCRCs

Mike Vitello | Vice President | Credit Surveillance and Analytics | mvitello@ziegler.com

Dated: January 25, 2022

EXECUTIVE SUMMARY

In our recent median report (dated November 15, 2021), we promised an in depth, COVID-related analysis of our ratio data. In this companion report, we attempt to examine the extent to which COVID-19 affected senior living providers, using our median ratio sample group as a proxy. We will focus on determining the financial impact on core operations, as well as sifting out the accounting impact of the various governmental aid programs.

As always, we encourage feedback regarding this report from the investing community. While we consider the raw data to be proprietary information, we can perform additional analysis/summarization upon request. Please contact the author with any comments or requests for additional information.

Summary of Pertinent Median Report Data

This report is a supplement to our FY 2020 CCRC Median Report, dated November 15, 2021. We highly recommend that the reader has that report, available on [ZieglerCreditsurveillance.com](https://zieglercreditsurveillance.com), open as well for reference and context. To keep this report as concise as possible, we assume the reader has reviewed and generally understands the material in that report, possesses a baseline of knowledge regarding CCRCs and has actively monitored the impact of COVID-19 on the senior living industry since March 2020. We follow all conventions and definitions laid out in that report. We intend to release an update to this report next year along with our FY 2021 CCRC Median Report, as COVID-aid funding will continue to materially impact financial statements.

These are some statistics from the 2020 median report that we want to restate for the reader in the context of this report. Sixty-six borrowers (57% of the 116 borrower sample group) received a PPP loan during their FYE 2020, with the median amount received equating to 32.3 DCOH. Twenty-three borrowers (20% of entire sample, 35% of those that received PPP) amortized at least a portion of their PPP loan during their FYE 2020, with the median amount amortized equating to 0.45 times coverage.

Ziegler Credit Surveillance

- Ziegler underwritten borrowers
- Investment grade vs. non-rated
- -Multi vs. Single



HOME & COMMUNITY-BASED SERVICES: HOME HEALTH MARGINS

**TABLE
8-7**

Historically high Medicare margins for freestanding home health agencies in 2021

	Prepandemic	Pandemic		Share of home health agencies, 2021	Share of periods, 2021
	2019	2020	2021		
All	15.4%	20.2%	24.9%	100%	100%
Geography					
Majority urban	16.1	20.0	24.8	85.0	85.1
Majority rural	14.2	21.6	25.2	15.0	14.9
Type of ownership					
For profit	17.4	22.7	26.1	88.2	82
Nonprofit	11.4	12.4	20.2	11.8	18
Volume quintile					
First (smallest)	9.7	11.6	14.0	20	2.5
Second	11.4	14.0	15.9	20	5.8
Third	13.3	17.0	19.3	20	10.4
Fourth	14.1	18.8	22.8	20	18.6
Fifth (largest)	17.5	22.4	28.3	20	62.6

Note: Home health agencies were classified as majority urban if they provided more than 50 percent of 30-day periods to beneficiaries in urban counties and were classified as majority rural if they provided more than 50 percent of episodes to beneficiaries in rural counties. These data do not include federal provider relief funds that HHAs received due to the public health emergency.

Source: MedPAC analysis of Medicare home health cost report files from CMS.



HOME & COMMUNITY-BASED SERVICES: HOSPICE MARGINS

TABLE 10-11

Hospice Medicare aggregate margins by selected characteristics, 2016 to 2020

Category	Share of hospices 2020	2016	2017	2018	2019	2020
All	100%	10.9%	12.5%	12.4%	13.4%	14.2%
Freestanding	83	14.0	15.3	15.1	16.2	16.7
Home health based	9	6.2	8.1	8.4	9.6	11.2
Hospital based	8	-16.7	-13.8	-16.5	-18.4	-18.2
For profit	73	17.9	20.0	19.0	19.2	20.5
Nonprofit	24	2.2	2.5	3.8	6.0	5.8
Urban	83	11.4	12.9	12.6	13.6	14.3
Rural	17	6.3	8.9	10.3	11.5	13.5
Patient volume (quintile)						
Lowest	20	-3.1	-1.1	-3.1	-4.5	-2.1
Second	20	6.2	6.7	5.6	6.2	4.9
Third	20	11.2	13.8	13.8	13.5	14.2
Fourth	20	13.1	15.2	14.0	15.8	17.9
Highest	20	11.1	12.5	12.7	13.9	14.4
Below cap	81	10.7	12.6	12.5	13.8	14.8
Above cap (excluding cap overpayments)	19	12.6	12.1	10.1	10.0	7.7
Above cap (including cap overpayments)	19	20.2	21.9	21.8	22.5	22.8
Share of stays > 180 days						
Lowest quintile	20	-5.4	-4.5	-3.0	-2.5	-0.4
Second quintile	20	5.8	7.0	8.5	10.3	11.8
Third quintile	20	14.8	17.1	16.8	19.9	20.0
Fourth quintile	20	20.0	22.1	20.8	22.8	24.1
Highest quintile	20	15.0	17.8	17.6	13.4	13.4
Share of patients in nursing facilities and assisted living facilities						
Lowest half	50	4.8	6.3	6.1	6.6	7.5
Highest half	50	16.2	18.1	17.3	18.7	18.9

Note: Margins for all provider categories exclude overpayments to above-cap hospices, except where specifically indicated. Medicare aggregate margins are calculated based on Medicare-allowable, reimbursable costs. Margin by hospice ownership status is based on hospices' ownership designation from the Medicare cost report. The rural and urban definitions used in this chart are based on updated definitions of the core-based statistical areas (which rely on data from the 2010 census).

Source: MedPAC analysis of Medicare hospice cost reports, Medicare hospice claims data, and Medicare Provider of Services file from CMS.



SPENDING ON TECHNOLOGY

Percentage of Total Capital Budget Devoted to Technologies

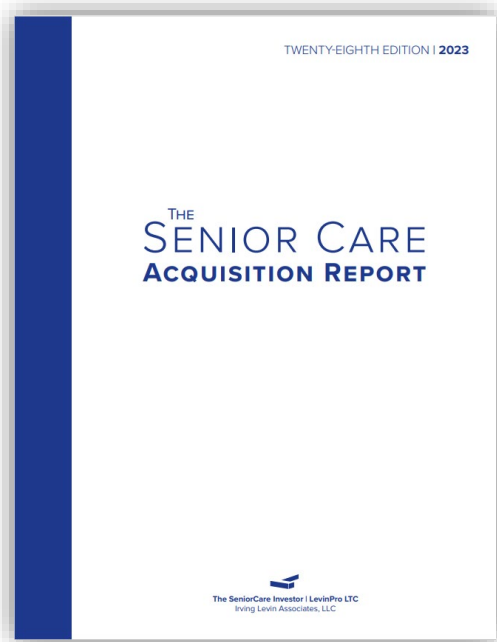
	2022	2020	2018	2016	2014
Average % (Total)	8.3%	8.0%	10.0%	11.8%	12.2%
Median % (Total)	5.0%	5.0%	7.0%	7.0%	9.5%
Average % (Single-sites)	9.1%	7.2%	10.4%	11.7%	12.1%
Median % (Single-sites)	5.0%	5.0%	7.0%	7.0%	10.0%
Average % (Multi-sites)	7.1%	9.3%	9.7%	11.8%	12.2%
Median % (Multi-sites)	5.0%	5.0%	5.0%	7.0%	8.0%



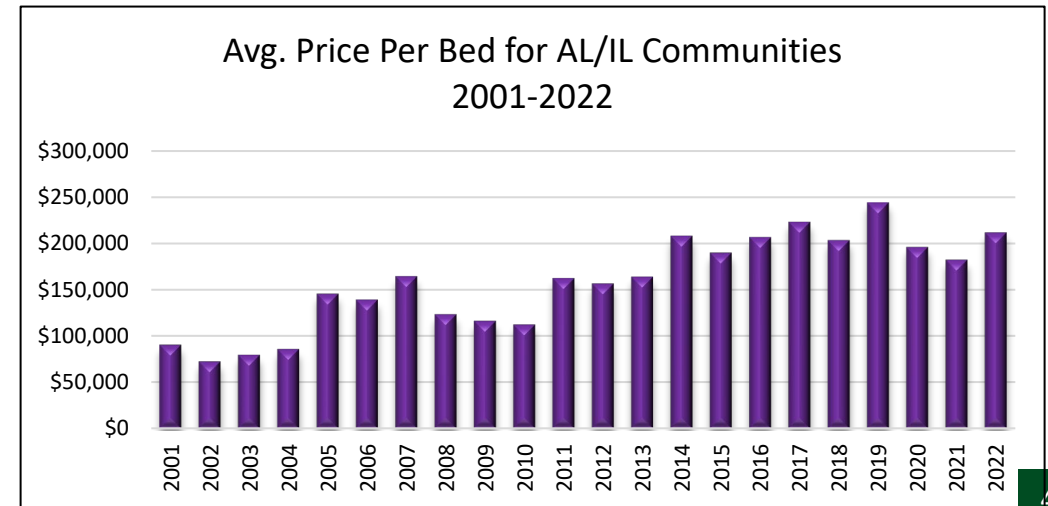
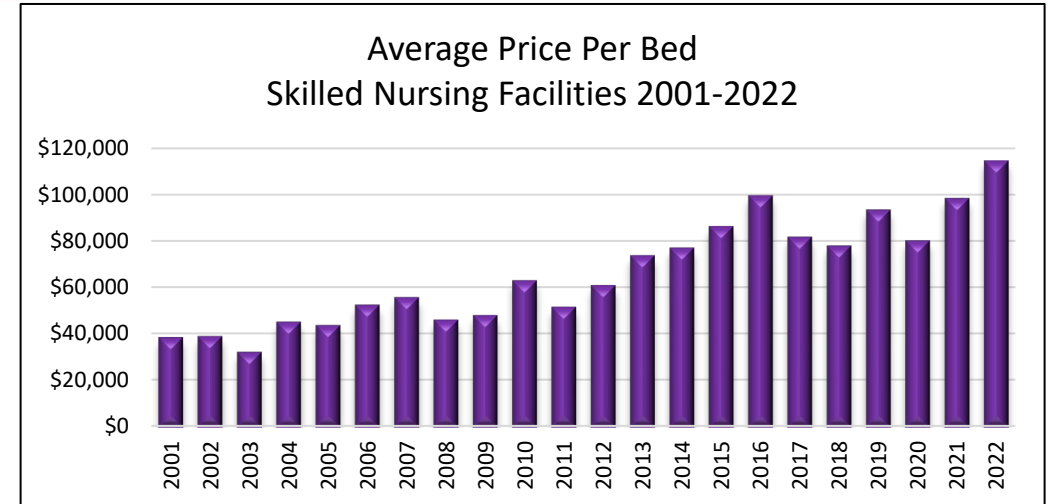
MULTI-SITE MANAGEMENT FEES

How is your organization's corporate allocation/management fee calculated?	All Respondents
% of Revenue	63.0%
Fixed Dollar Amount	7.4%
Both	4.9%
Neither	1.2%
Other	23.5%

If a % of revenue, what is that current percentage	All Respondents
Minimum	4.0%
Median	6.0%
Maximum	17.0%
<i>Average</i>	6.4%



- Full report for purchase
 - Multiple crosstabulations of sale data
 - Full listing of public sales transactions

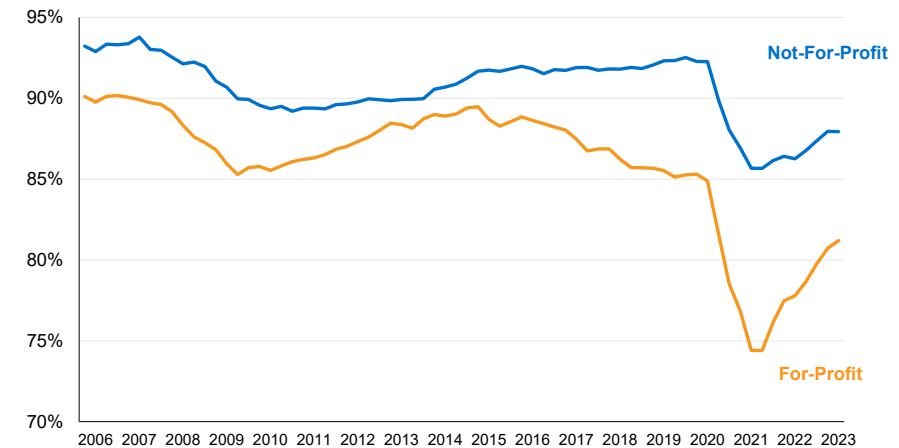




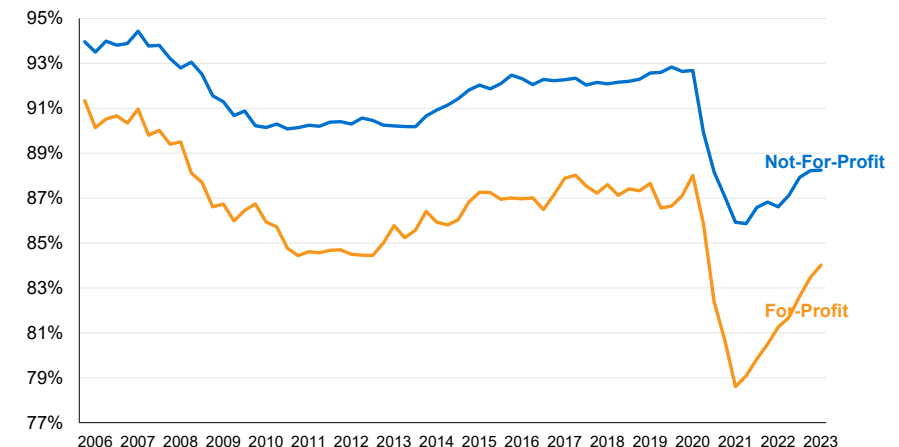
OCCUPANCY

- NIC is the primary aggregator and reporter of occupancy data
- Full access requires subscription
- Ziegler includes CCRC occupancy data every quarter in Z-News

Seniors Housing Occupancy by Profit Status; MAP31
4Q05 – 1Q23



CCRC Occupancy by Profit Status; MAP31
4Q05 – 1Q23





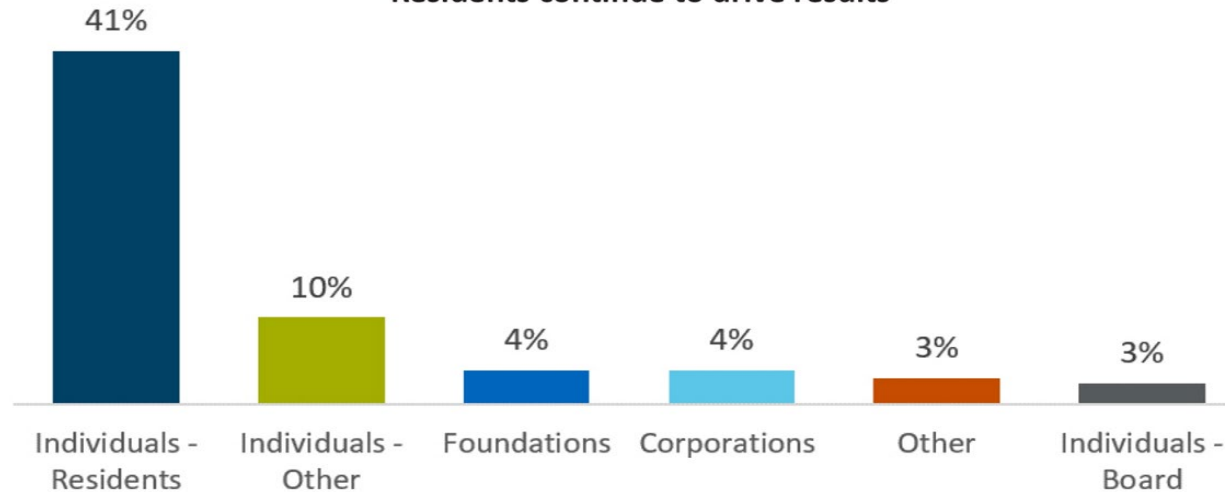
PHILANTHROPY IN SENIOR LIVING

Marts&Lundy

Net Revenue Per Independent Living Unit			
	All	Single-Site	Multi-Site
Minimum	\$233	\$276	\$233
Median	\$2,551	\$3,599	\$2,225
Maximum	\$61,015	\$61,015	\$77,083

Balancing Revenue and Expenses			
	All	Foundation	Departmental
Median Revenue	\$1.9M	\$2.4M	\$1.7M
Median Costs	\$426,618	\$600,000	\$200,000

Residents continue to drive results

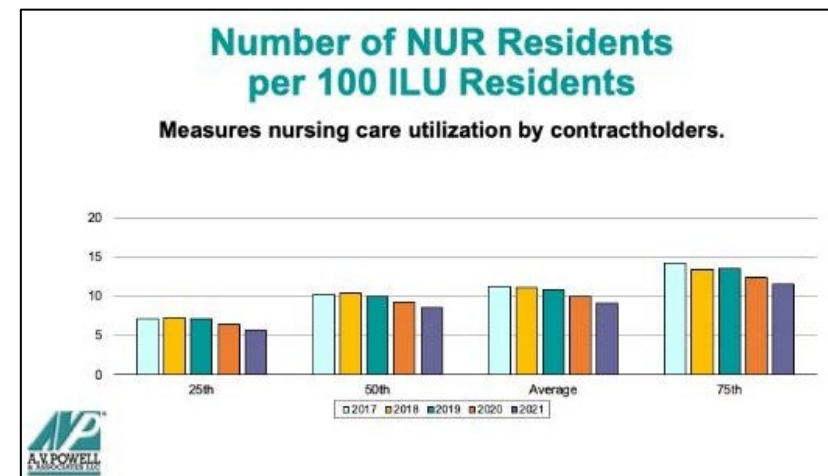
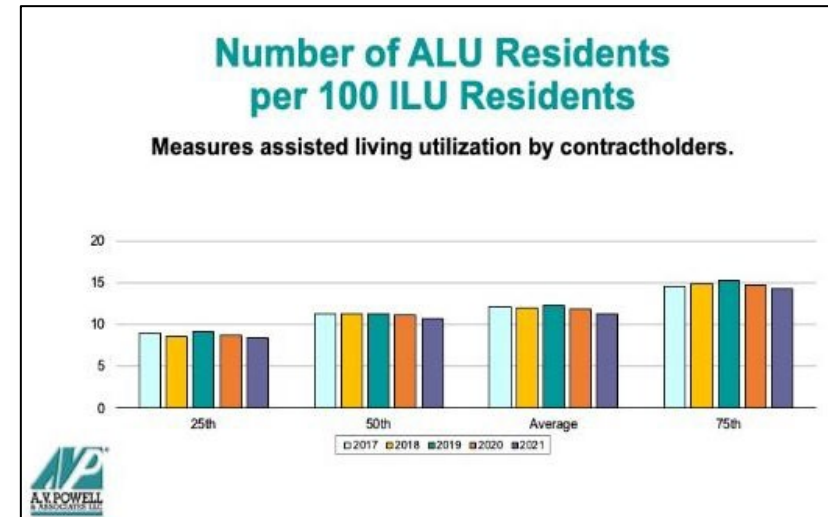


Medians were calculated independently for each donor category and therefore do not total 100%



RATIO OF HEALTHCARE BEDS

- The ratio of healthcare beds to Independent Living units/residents has been declining
- The pandemic accelerated this trend
- Residents increasingly agnostic regarding the setting for services

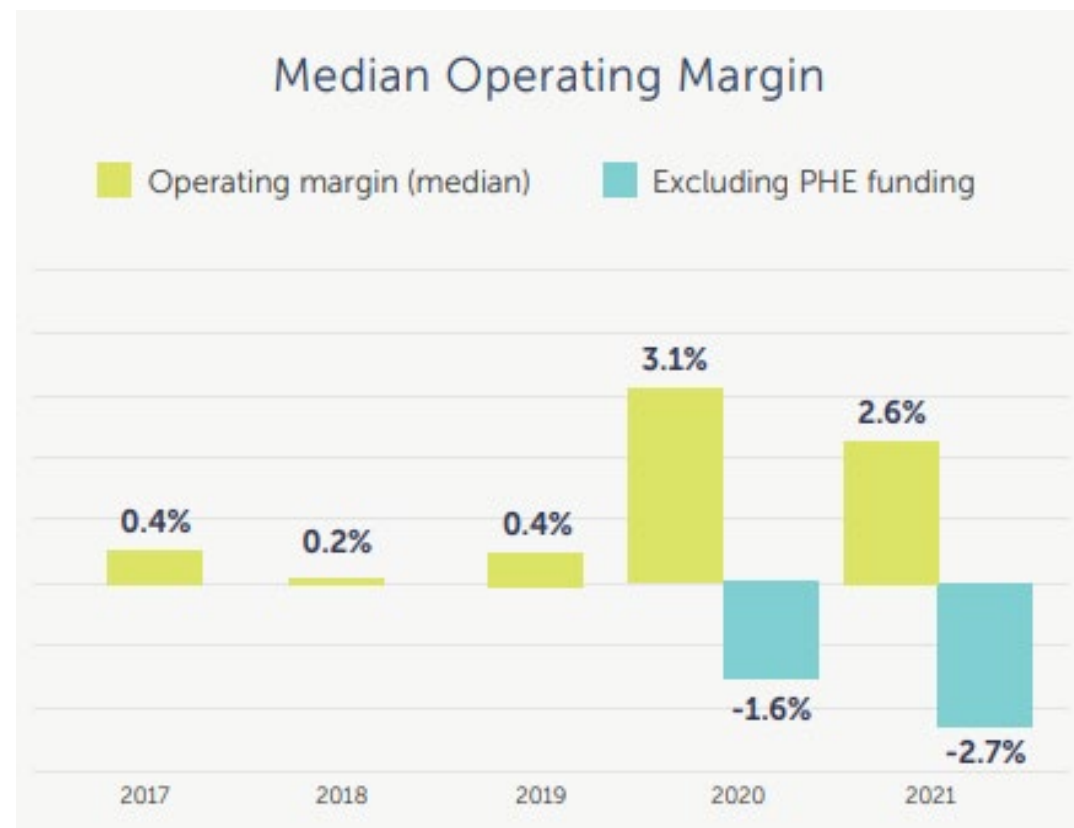




SKILLED NURSING PERFORMANCE: MARGINS

Several reports released annually

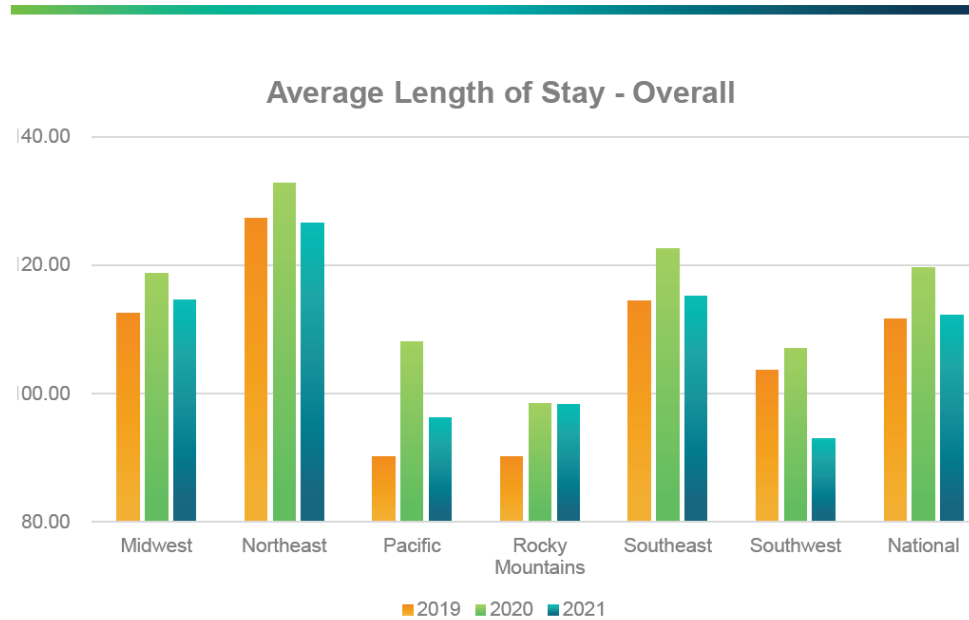
- Accounting firms, other consulting firms; Aggregate CMS data from annual cost reports





SKILLED NURSING LENGTH OF STAY

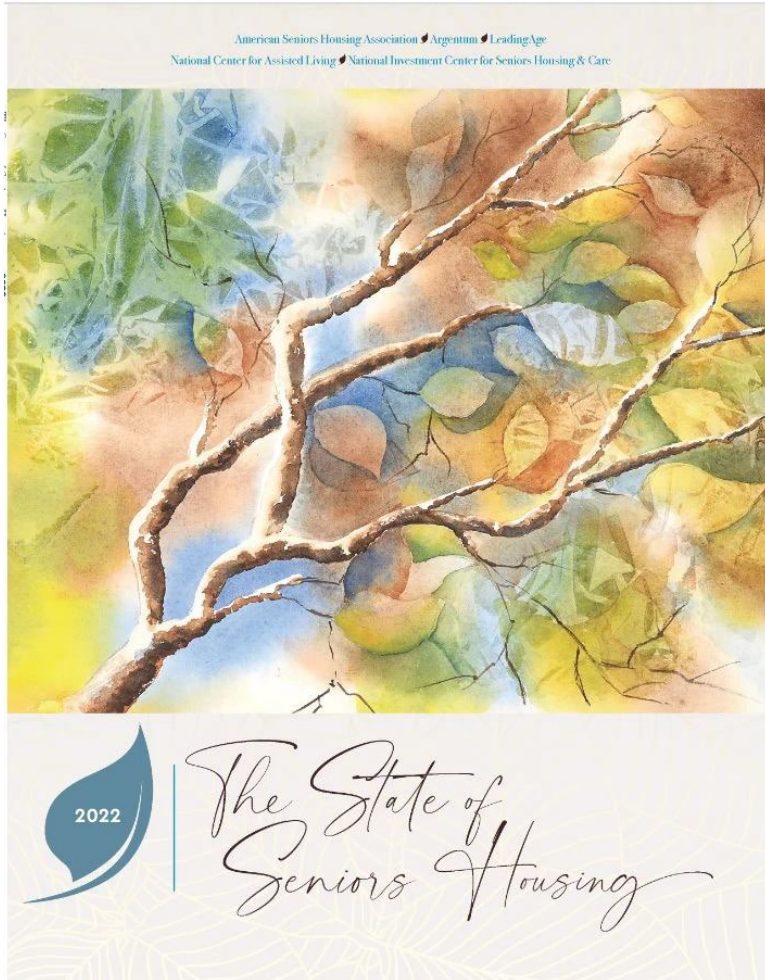
MARCUMLLP.COM



	2019	2020	2021
Midwest	112.52	118.78	114.57
Northeast	127.25	132.77	126.63
Pacific	90.20	108.13	96.24
Rocky Mountains	90.24	98.51	98.35
Southeast	114.46	122.64	115.12
Southwest	103.57	107.09	92.99
National	111.65	119.56	112.23



STAFFING-RELATED STATISTICS



AVERAGE FTEs: CCRCs

Department	Minimum	Average
Administrative	2.0	9.6
Dietary	8.0	52.5
Housekeeping	2.0	19.8
Maintenance	2.0	12.4
Marketing	1.0	4.1
Assisted Living	1.0	27.8
Nursing	9.0	47.6
Activities	1.0	6.2
Weighted Average FTE per AL/MC Resident: .55		
Weighted Average FTE per SN Resident: 1.55		



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Ziegler provides its clients with capital raising, strategic advisory services, equity & fixed-income trading and research

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