

# SIMS CASE STUDY / Athena



*Waterview Villa ~ East Providence, RI*

## **SIMS RAISES \$4.8 MILLION OF EQUITY TO FACILITATE ATHENA ACQUISITION**

Herbert J. Sims & Co., Inc. ("Sims") raised \$4.8 million of preferred equity to assist [Athena Health Care Associates, Inc.](#) ("Athena") in acquiring two skilled nursing facilities in Rhode Island (the "Facilities").

### **DESCRIPTION**

Athena, one of the largest managers of skilled nursing facilities in New England with locations in Connecticut, Massachusetts and Rhode Island, entered into a purchase and sale agreement to acquire two stabilized skilled nursing facilities in Rhode Island. The seller required that the sale be completed by September 1, 2011. The plan of finance included a first mortgage loan, preferred equity and equity from Athena's principals. The acquisition, consisting of 262 skilled nursing beds which were 94% occupied as of June 30, 2011, is important to Athena's long-term growth strategy to acquire quality assets in New England.

### **CHALLENGES**

The transaction had several challenges resulting from structure and time constraints including:

- Because the senior lender would not allow any subordinate debt, any third party investment needed to be structured as equity. However, the investment needed to be structured to allow for the repurchase of third party equity over time, so that Athena could achieve its long-term goal of 100% ownership of the facilities, while working within the constraints of the senior lender, which imposed significant hurdles on distributions.
- Another challenge was raising equity in a difficult environment for a skilled nursing acquisition with a volatile market and government having announced Medicare cuts. The stock of publicly-held nursing-home operators lost more than 25% of their market value after the announcement.

## SOLUTION

Sims' creative approach allowed Athena to raise preferred equity to close on the acquisition of the Facilities with scheduled repayments enabling Athena to achieve its long-term goals. This structure provided the senior lender with its required equity and Athena with a financing that has debt features.

## IMPLEMENTATION

HJS worked closely with Athena to create a unique financing structure, which took advantage of Sims' creativity and flexibility. First, we created a new upstream entity which issued taxable bonds. Second, the proceeds of the bonds were then used by this new entity to make a preferred equity investment in the entities which own the nursing homes. The bonds are backed by the cash distributions made to the preferred equity as well as a limited subordination of management fees. The final piece to the puzzle was negotiating with the senior lender to allow distributions to be made to the preferred equity provided the senior loan was not in default. This structure allowed Athena to essentially place subordinate debt-like securities on the projects which can be retired over time while still meeting the senior lender's prohibition on subordinate debt and other restrictions. During a time of extreme stock market volatility and general pessimism about nursing-home investments, Sims was able to leverage its retail investor base and industry expertise to meet Athena's financing needs. Sims completed the sale of \$4.8 million of Subordinate Taxable Bonds in less than five days and was oversubscribed.

## RESULT

Sims was able to implement an equity capital structure that met the needs and requirements of the client, investors, senior lender and state regulators. The expertise and creativity of Sims' bankers, along with the flexibility and industry knowledge of its retail investors, resulted in a customized solution for Athena.

Raising capital for complicated transactions is just the latest example of Sims using its extensive client base and creativity to provide a customized capital solution. Sims excels in filling the niches that allow owner/operators to complete complex transactions through creative advice and execution.

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