

THE NURSING HOME INDUSTRY'S HARDSHIP PLEAS: NARRATIVE VS. REALITY

**Capital Flows Through Corporate Entities Funded By Medicaid &
Medicare**

A Presentation by:

Dave Kingsley, PhD

Challenging the Nursing Home Industry's Hardship Plea: It's Important for Advocacy & Reform

- Debunking the “low net” & income loss arguments:
 - “We can’t afford to do better because we have a low profit margin.”
 - “Net income is thin.”
 - COVID caused financial devastation for LTC/SKN corporations.

Riverbend NH, Kansas City, KS



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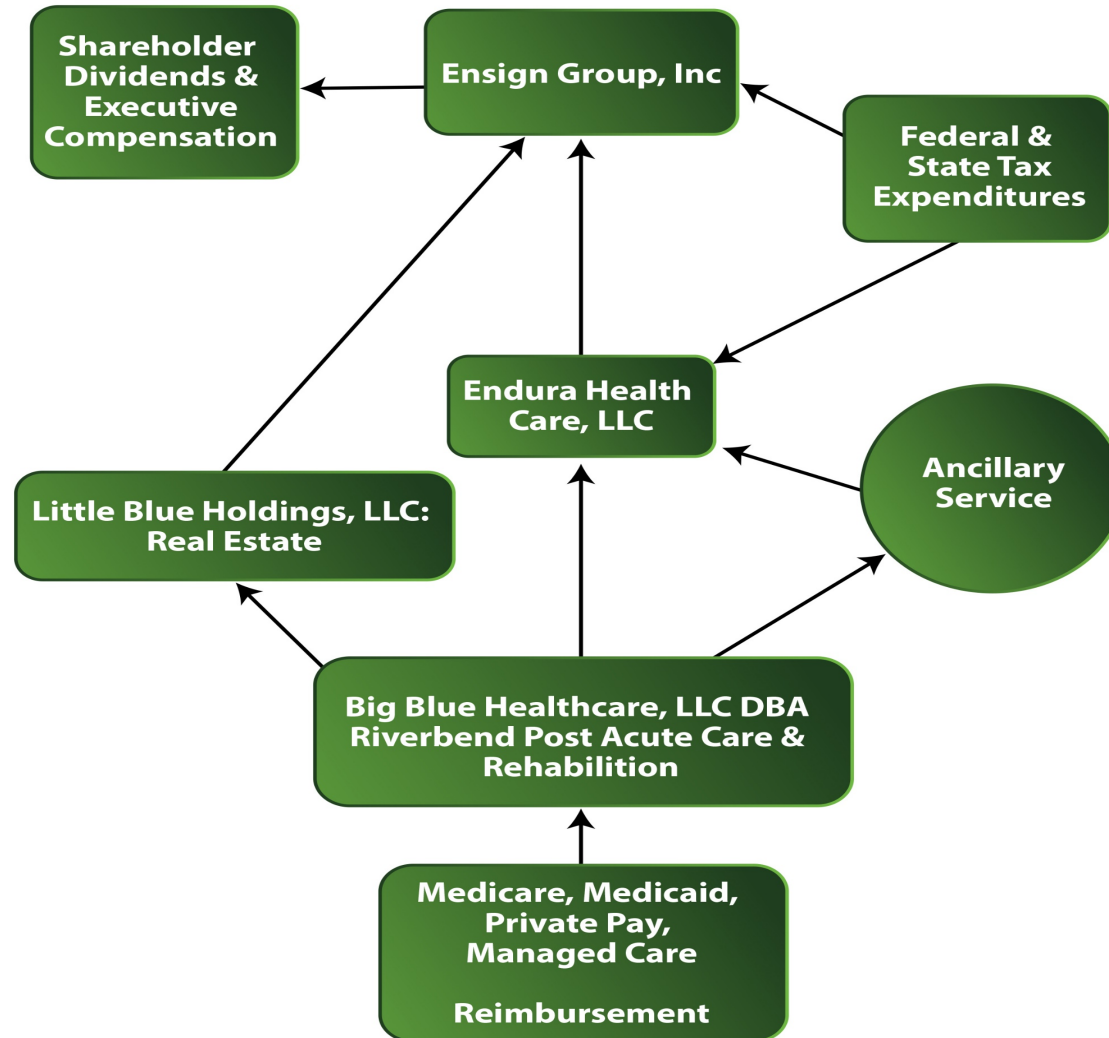
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WELCOME TO
RIVERBEND
POST ACUTE REHABILITATION

Kansas City's Premier Location for Short-Term Rehabilitation and Long-Term Care

The Ensign Group's KCK Facility



Financial Engineering & The Ensign Group Spin Offs

1999
Roy Christensen
Combines Covenant
Care & Other Corporations
Into the Ensign Group

1999
Founding of
Ensign Group

2007
Ensign Group IPO

2007
Ensign Group
IPO

2013
Spinoff of Property
into Care Trust Reit

2013
Spinoff of
Real Estate
into Reit

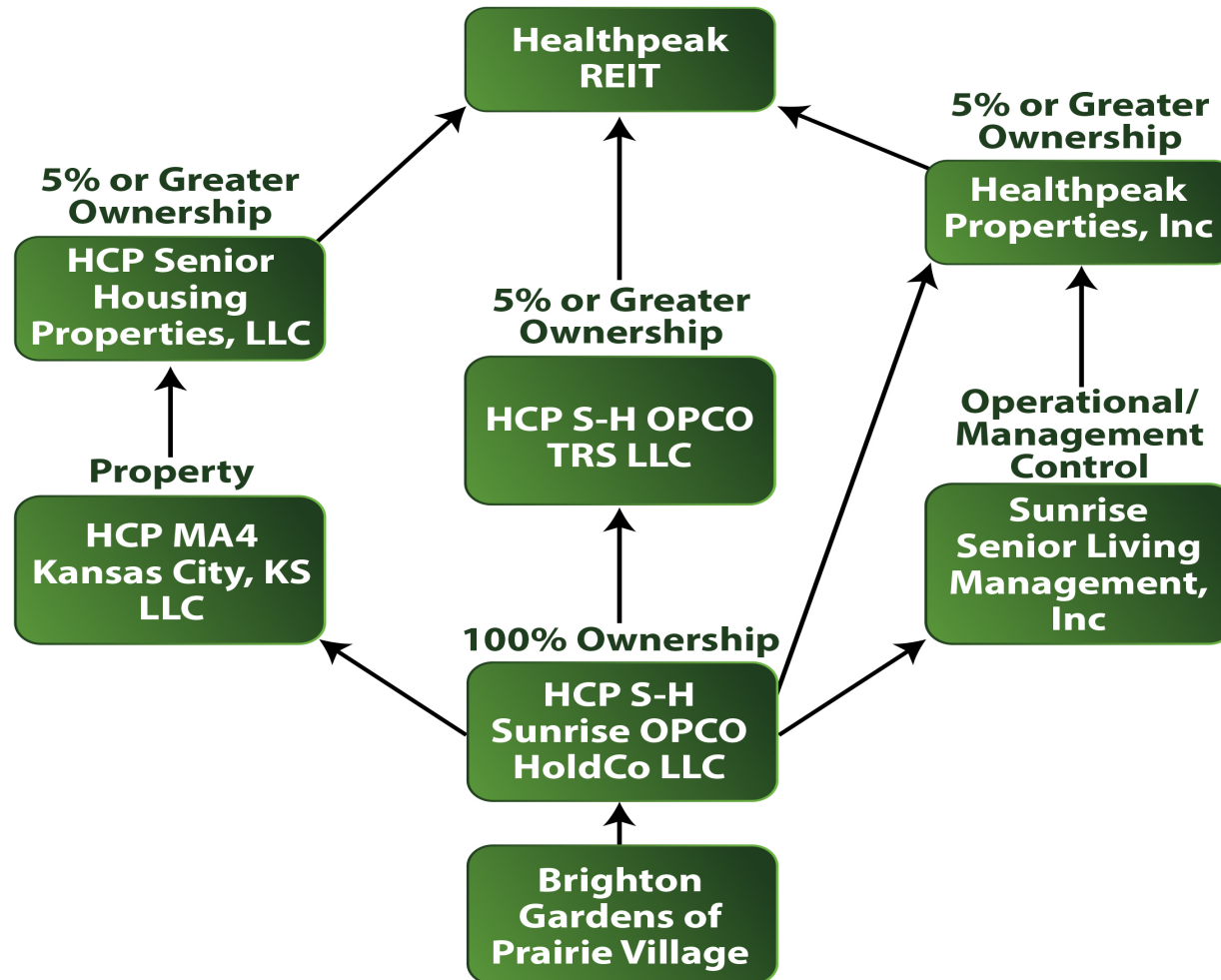
2016
Spinoff of Assisted
Living Property into
the Pennant Group

2016
Spinoff of
AL Property
into Pennat

1



Brighton Gardens



Security Ownership of Principal Stockholders, Directors and Management

The following table sets forth certain information as of March 1, 2021 (unless otherwise indicated) regarding the beneficial ownership, as that term is defined in Rule 13d-3 under the Exchange Act, of shares of our common stock by: (i) each person known to beneficially own more than 5% of our outstanding common stock; (ii) each director and nominee for election as director; (iii) each of the NEOs; and (iv) all current directors and executive officers as a group. This table is based on Company records and information supplied to us by our executive officers, directors and principal stockholders or included in a Schedule 13G, or an amendment thereto, filed with the SEC.

NAME OF BENEFICIAL OWNER	SHARES BENEFICIALLY OWNED ⁽¹⁾		
	NUMBER OF SHARES	NUMBER OF OPTIONS/ RSUs ⁽²⁾	PERCENT OF CLASS ⁽³⁾
Greater than 5% Stockholders			
The Vanguard Group, Inc. and affiliates ⁽⁴⁾ 100 Vanguard Boulevard Malvern, PA 19355	83,876,336	—	15.58%
Cohen & Steers, Inc. and affiliates ⁽⁵⁾ 280 Park Avenue, 10th Floor New York, NY 10017	57,382,178	—	10.66%
BlackRock, Inc. ⁽⁶⁾ 55 East 52nd Street New York, NY 10055	56,298,227	—	10.05%
State Street Corporation ⁽⁷⁾ State Street Financial Center One Lincoln Street Boston, MA 02111	31,666,160	—	5.88%
Directors			

Financial Metrics of Importance to Investors

- Income Statement, Balance Sheet, & Cash Flow Statement:

Revenue

Depreciation, Interest, & Taxes

Net

EBITDA = “Earnings before interest, taxes, depreciation & Amortization”

Cash

Year Ended December 31,			
	2020	2019	2018
<i>(In thousands, except per share data)</i>			
Revenue:			
Service revenue	\$ 2,387,439	\$ 2,031,266	\$ 1,752,991
Rental revenue	15,157	5,258	1,610
Total revenue	<u>\$ 2,402,596</u>	<u>\$ 2,036,524</u>	<u>\$ 1,754,601</u>
Expense:			
Cost of services	1,865,201	1,620,628	1,418,249
Return of unclaimed class action settlement (Note 20)	—	—	(1,664)
Rent—cost of services	129,926	124,789	117,676
General and administrative expense	129,743	110,873	90,563
Depreciation and amortization	<u>54,571</u>	<u>51,054</u>	<u>44,864</u>
Total expenses	<u>2,179,441</u>	<u>1,907,344</u>	<u>1,669,688</u>
Income from operations	223,155	129,180	84,913
Other income (expense):			
Interest expense	(9,362)	(15,662)	(15,182)
Interest and other income	3,813	2,649	2,016
Other expense, net	<u>(5,549)</u>	<u>(13,013)</u>	<u>(13,166)</u>
Income before provision for income taxes	217,606	116,167	71,747
Provision for income taxes	46,242	23,954	12,685
Net income from continuing operations	171,364	92,213	59,062
Net income from discontinued operations, net of tax (Note 21)	—	19,473	33,466
Net income	<u>171,364</u>	<u>111,686</u>	<u>92,528</u>

Depreciation is a huge noncash expense that appears on the income statement



Net Plus Depreciation & Amortization: A Different Financial Picture

- Revenue = \$2.4 Billion
- Net = \$171.4 Million Net of 7.1%
- Depreciation = \$54.6 Million
- Net + Depreciation = \$225.9 Million
9.4%

Revenue (Billions)

Company	2020	2019
Nursing homes		
Brookdale ^a	\$3.5	\$4.0
Diversicare ^b	\$0.5	\$0.5
Ensign Group ^c	\$2.4	\$2.0
REITs		
Healthpeak ^d	\$1.6	\$1.2
LTC Properties Inc. ^e	\$0.2	\$0.2
National Health Care ^f	\$1.0	\$1.0
National Health Investors ^g	\$0.3	\$0.3
Omega Health Care ^h	\$0.9	\$0.9
Sabra Healthcare REIT ⁱ	\$0.6	\$0.7
Ventas ^j	\$3.8	\$3.9
Welltower ^k	\$4.6	\$5.1

EBITDA & CASH 2020

	EBITDA & CASH ON HAND: BROOKDALE, DIVERSICARE, ENSIGN GROUP					
	EBITDA			CASH/CASH EQUIVALENTS		
	2020	2019	2018	2020	2019	2018
BROOKDALE	\$265.84	\$337.50	-144.66	\$581.30	\$335.60	\$440.81
DIVERSICARE	\$44.12	\$24.19	\$2.58	\$30.80	\$2.70	\$2.60
ENSIGN GROUP	\$278.60	\$181.32	\$130.30	\$250.10	\$76.90	\$39.70

Trusts Are A Big Deal In The LTC Business

- REAL ESTATE INVESTMENT TRUSTS (REITs)

Entered the industry in 2000 and provide capital for financing and trading real estate

- FAMILY TRUSTS & INDIVIDUAL TRUSTS

Primary means for protecting individual and family wealth from taxation.

EXECUTIVE & BOARD COMPENSATION

CORPORATION	PRES/CEO	TOTAL COMPENSATION		
		2020	2019	2018
BROOKDALE SENIOR LIVING	LUCINDA M. BAIER	\$7,087,470	\$6,350,901	\$4,674,255
ENSIGN GROUP	BARRY R. PORT	\$6,517,328	\$6,311,712	\$5,729,859
HEALTHPEAK	THOMAS HERZOG	\$11,374,615	\$9,907,966	\$8,619,819
LTC PROPERTIES	WENDY L. SIMPSON	\$4,200,356	\$4,161,603	\$3,417,340
NATIONAL HEALTH CARE	R. MICHAEL USSERY	\$1,208,485	\$1,292,506	\$1,253,662
NATIONAL HEALTH INVESTORS	D. ERIC MENDELSON	\$1,789,030	\$1,808,513	\$1,800,008
OMEGA HEALTH CARE	C. TAYLOR PICKETT	\$10,453,238	\$7,287,348	\$6,582,323
SABRA HEALTHCARE	RICHARD K. MATROS	\$5,743,968	\$4,675,510	\$4,829,775
VENTAS	DEBRA A. CAFARO	\$12,628,714	\$11,348,335	\$13,116,202
WELLTOWER (DEROSA)*	THOMAS J. DEROSA	\$14,589,584	\$13,142,124	\$12,884,453
WELLTOWER (MITRA)**	MITRA SHANKRH	\$9,557,434	\$5,728,143	\$4,934,861

CONCLUSION

- Advocates need a narrative based on objective, valid financial information.
- Today's Webinar was an overview of financial structures and information for debunking the industry narrative & constructing advocacy frames & a narrative.
- At our Tallgrass Economics blog, we will continue to provide information and tools for approaching financial issues.
- You can find our blog at: *<http://tallgrasseconomics.org/>*