

FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms RiverWoods at Exeter, NH at 'A-'; Outlook Stable

Wed 22 Jun, 2022 - 11:38 AM ET

Fitch Ratings - New York - 22 Jun 2022: Fitch Ratings has affirmed RiverWoods at Exeter, NH's Issuer Default Rating (IDR) at 'A-'.

The Rating Outlook is Stable.

RiverWoods at Exeter has \$49 million of debt that is directly placed with banks that are not rated by Fitch; however, the debt is incorporated in the IDR.

SECURITY

Security features are not relevant to the IDR.

ANALYTICAL CONCLUSION

The 'A-' rating is supported by RiverWoods at Exeter's strong liquidity position, which provides the community with a financial cushion to absorb continued pandemic-related disruptions and higher levels of capital spending in the future. Although operational performance has weakened over the pandemic, ILU occupancy remains strong at about 97% occupancy and the ILU waitlist is robust. Despite some lingering weakness in skilled nursing facility (SNF) and assisted living (AL) census levels, Fitch expects a return to pre-

pandemic levels in the next few years as residents continue to access the continuum of care.

KEY RATING DRIVERS

Revenue Defensibility: 'a'

Strong ILU Occupancy and Market Position

The revenue defensibility assessment is supported by historically strong demand with ILU, ALU, and SNF occupancies that have averaged 97%, 76%, and 87%, respectively over the last five years. Census levels within the health center softened as the community dealt with staffing challenges resulting in the temporary closure of 19 nursing beds. Fitch expects occupancy to recover as transfers through the continuum start to increase, but could take a few years to stabilize to pre-pandemic levels.

RiverWoods at Exeter's favorable service area and a strong market position have helped consistently draw residents from outside of the state with only about 30% of ILU residents coming from within the state. Currently, there is a waitlist of 300 units, with prospective residents placing a 10% deposit. The community's pricing characteristics are affordable relative to resident wealth and income levels.

Operating Risk: 'bbb'

Operational Recovery Expected, Higher Capital Spending

The midrange operating risk assessment is based on RiverWoods at Exeter's adequate operating cost flexibility over the last five fiscal years, consistent with its position as a type-A lifecare contract provider. The community has historically maintained adequate operating performance with an operating ratio, net operating margin (NOM), and NOM-adjusted (NOMA) that averaged 97.1%, -0.2%, and 13.4% from fiscal years 2017-2021. Disruptions from the pandemic, including lower censuses in AL and SNF, and pandemic-related expenses led to a deterioration in operating performance in fiscal 2020 and 2021, with operating ratios of 98.8% and 100.1%.

However, through the first nine months of 2022, RiverWoods at Exeter's operating ratio, NOM, and NOMA have improved considerably to 95.9%, 1.0%, and 24.7%, respectively. Fitch expects Riverwoods at Exeter's performance to historical levels given the community's strong demand and track record of adequate cost management.

Fitch expects capex to be elevated over the next few years, with common space renovations planned at two of the campuses and the potential of a new consolidated healthcare unit that currently doesn't have any additional debt planned.

RiverWoods at Exeter has historically maintained adequate capital-related metrics, with five-year averages (fiscal years 2017-2021) of maximum annual debt service (MADS) to revenue of 9.5%, revenue-only MADS coverage of 0.8X, and debt to net available of 6.7x. Fitch expects that capital-related metrics will return to levels that are consistent with the midrange assessment as operations continue to recover.

Pandemic induced stresses led to a debt service coverage violation for March 31, 2021 (rolling 12-month, tested quarterly), which was waived by the community's lenders. As a result, of a significant increase in move-ins in fiscal 4Q21, RiverWoods at Exeter well exceeded its 1.2x covenant for fiscal 2021.

Financial Profile: 'a'

Robust Financial Profile

The strong financial profile assessment reflects RiverWoods at Exeter's robust liquidity profile, which continued to improve over the last year despite weaker operations. Through FYE 2021, unrestricted cash and investments grew to \$91.9 million, which translated to cash-to-adjusted debt of 181.8%, up from \$68.4 million and 130.2% in fiscal 2020. Fitch-calculated MADS coverage was 2.4x for 2021.

In the context of the 'strong' revenue defensibility assessment and the 'midrange' operating risk assessment, Fitch expects RiverWoods to maintain key leverage metrics that are consistent with the 'a' financial profile assessment through Fitch's forward-looking scenario analysis.

RiverWoods at Exeter's strong liquidity position provides ample flexibility to the community to weather operational disruptions driven by the pandemic and the higher levels of capital spending over the next 5 years. RiverWoods at Exeter maintains leverage metrics that are consistent with the 'a' financial profile assessment throughout Fitch's forward-looking stress, which includes an operational and issuer-specific portfolio stress.

Asymmetric Additional Risk Considerations

No asymmetric risk considerations were relevant to the rating.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Operational improvement where NOM and NOMA are sustained above 10% and 25%;

--Further cash accretion where cash-to-adjusted debt is sustained at or above 200%.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Unexpected asset transfers or loans that dilute liquidity where cash-to-adjusted debt is maintained below 100%;

--A failure to realize further cash flow where NOMA is sustained below 15% and MADS coverage remains below 2.0x.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

CREDIT PROFILE

Located in Exeter, New Hampshire, RiverWoods at Exeter is a type-A continuing care retirement community with 393 IL units, 71 AL units and 23 SNFs along with 55 nursing beds with an AL license across three campuses: The Woods, The Ridge, and The Boulders.

The RiverWoods Group is the parent company and sole member of RiverWoods Exeter. Other subsidiaries of the parent include Birch Hill (dba Riverwoods Manchester) and RiverWoods Durham (Durham). RiverWoods at Exeter has provided liquidity support to the parent with an asset transfer over the last fiscal year. This includes an \$8 million transfer to the Riverwoods Group in fiscal 2021. Analysis is based solely on RiverWoods at Exeter; however, Fitch monitors activity between the parent and its' subsidiaries.

Sources of Information

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

RiverWoods at Exeter (NH) has an ESG Relevance Score of '4' for Group Structure due to asset transfers to the parent, which is relevant to the rating in conjunction with other factors.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕		PRIOR ↕
RiverWoods at Exeter (NH)	LT IDR	A- Rating Outlook Stable	A- Rating Outlook Stable
	Affirmed		
RiverWoods at Exeter (NH) /Issuer Default Rating/1 LT	LT	A- Rating Outlook Stable	Affirmed A- Rating Outlook Stable

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

Public Sector, Revenue-Supported Entities Rating Criteria (pub. 01 Sep 2021) (including rating assumption sensitivity)

U.S. Public Finance Not-For-Profit Life Plan Community Rating Criteria (pub. 05 Apr 2022)
(including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Portfolio Analysis Model (PAM), v1.3.3 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

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RiverWoods at Exeter (NH)

EU Endorsed, UK Endorsed

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