

RATING ACTION COMMENTARY

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

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Fitch Ratings - New York - 07 Jun 2024: Fitch Ratings has affirmed RiverWoods at Exeter, NH's Issuer Default Rating (IDR) at 'A-'.

RiverWoods at Exeter has \$44 million of debt that is directly placed with banks that are not rated by Fitch; however, the debt is incorporated in the IDR.

The Rating Outlook is Stable.

RATING ACTIONS

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

VIEW ADDITIONAL RATING DETAILS

The 'A-' rating is supported by RiverWoods at Exeter's strong market position, good liquidity, adequate operating performance, and steady capital spending. Key to the overall financial performance is high independent living (IL) occupancy, which was at 98.7% at March 31, 2024. Despite the sector's inflationary and staffing headwinds, Riverwoods at Exeter operating performance remains adequate for a Type A contract life plan community (LPC). Nine-month FY24 (June 30 YE) results show an operating ratio of 100.7%, a net operating margin-adjusted (NOMA) of 11.1% and maximum annual debt service (MADS) coverage of 2.0x (as calculated by Fitch).

Riverwoods is in the planning phase of a health center repositioning project. The project would move the continuum of care services - assisted living (AL), memory care, and skilled nursing, from each of the individual campuses, The Woods, The Ridge, and The Boulders, and centralize them at a newly constructed health center. It is anticipated that the vacated spaces on each campus would be turned into IL apartments and additional common space.

While Riverwoods at Exeter has some debt capacity at the current rating, there could be a downgrade depending on the final size, scope, phasing, and structure of the project and any associated debt issuance. Fitch expects to be able to incorporate the project into the rating at the next rating review.

SECURITY

Security features are not relevant to the IDR.

KEY RATING DRIVERS**Revenue Defensibility - 'a'****Excellent Market Position**

The strong revenue defensibility is supported by demand for IL, with occupancy in IL averaging 96%, over the last five years. A waitlist with over 400 members further highlights the strong demand. Prospective residents on the waitlist put down a 10% deposit on the type of unit they are interested in, which indicates a strong commitment to moving in once an IL unit becomes

available. Riverwoods at Exeter is located in Rockingham County, which has favorable demographics with population growth and median incomes above New Hampshire state figures.

Riverwoods at Exeter also has a national draw, with about 45% of IL residents coming from outside the state in the last fiscal year. This geographic diversity in the resident population insulates Riverwoods at Exeter from changes in the local market and further supports the strong revenue defensibility. Overall, resident wealth and income levels are consistent with unit pricing, and Riverwoods at Exeter has consistently raised rates.

Census levels within AL and skilled nursing occupancy, which averaged 81.2% and 84.4% through the first nine months of FY24, are in line with the sector, which has been rebuilding these occupancies since the pandemic. Riverwoods at Exeter has reduced the number of staffed skilled nursing beds to most efficiently manage to its staffing, the needs of its current residents, and to costs.

Operating Risk - 'bbb'

Operational Recovery Expected, Higher Capital Spending

The midrange operating risk assessment is based on RiverWoods at Exeter's operating cost flexibility over the last five fiscal years and is consistent with its position as a type-A lifecare contract provider. The community has historically maintained an adequate operating performance with an operating ratio, and NOMA that averaged 99.6%, and 16.1% over the last five fiscal years. Fitch expects this level of performance to continue, driven by the IL demand, good cost management, rate increases, and improvement in the AL and skilled nursing areas.

Capex averaged 120.4% of depreciation in the last five years and that is consistent with the midrange assessment. Fitch expects capex to be elevated, with spending focused on lifecycle investments. Capital-related metrics are also consistent with the midrange assessment, At FYE 2023, MADS was a modest 8.4% of revenues, revenue-only MADS coverage was 0.3x, and debt to net available of 5.2x.

Financial Profile - 'a'

Financial Profile Resilient Through a Moderate Stress

At FYE 2023, Riverwoods at Exeter had unrestricted cash and investments of approximately \$78.4 million, which equated to about 681 days cash on hand (DCOH) and 169.6% cash-to-adjusted debt. MADS coverage was 2.4x (as calculated by Fitch).

Fitch's base case scenario, which is a reasonable forward look of financial performance over the next five years given current economic expectations, assumes Riverwoods at Exeter producing an operating ratio of about 100%, with entrance fees consistent with historical levels. Capital spending is expected to remain above depreciation. The potential health center repositioning project is not included in the forward look. The base case forward look shows key adjusted leverage metrics strengthening, providing additional debt capacity.

Fitch's stress scenario assumes an economic stress (to reflect both operating and equity volatility). The portfolio stress is specific to Riverwoods at Exeter's asset allocation. The stress case shows metrics remaining consistent with the rating level, DCOH remains comfortably above 200 days through the stress case, which is neutral to the rating.

Sizable transfers of cash and investments to Riverwoods Group, the parent, which in the past has been a credit concern and has affected Riverwoods at Exeter's financial profile, are not expected. The Riverwoods Group has put in place a yearly transfer of assets (based on a percentage of entrance fees) for all three of its market rate LPCs, including Riverwoods at Exeter.

While Fitch views transfers to the parent negatively, the policy, which lays out a consistent yearly transfer, is not expected to affect Riverwoods at Exeter's financial profile. Additionally, as part of the policy, the parent will support growth activities at the individual LPCs. The development costs for the potential health center repositioning project is being covered by the parent through this policy, and these funds will only be paid back if the project moves forward.

Asymmetric Additional Risk Considerations

No asymmetric risks informed the rating assessment outcomes.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

--A debt issuance or decline in unrestricted liquidity such that cash-to-adjusted debt is expected to stabilize below 100%;

--MADS coverage that is consistently around 2.0x;

--The financial performance weakening such that operating ratio stabilizes at above 105%.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

--Positive movement in the rating is not expected over the outlook period given the uncertainty of the health center repositioning project and its protentional negative affect on Riverwood of Exeter's financial profile.

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. Total operating revenue was \$43.7 million in FY23.

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). 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.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

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APPLICABLE CRITERIA

[U.S. Public Finance Not-For-Profit Life Plan Community Rating Criteria \(pub. 05 Apr 2023\) \(including rating assumption sensitivity\)](#)

[U.S. Public Sector, Revenue-Supported Entities Rating Criteria \(pub. 12 Jan 2024\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

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

Portfolio Analysis Model (PAM), v2.0.0 (1)

ADDITIONAL DISCLOSURES

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