

2024 Financial Management Conference

Business Combinations

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Panelists: Tatiana Blank, Eden Housing, Chris Cherry, Wesley Housing, Dana Moore, Compass Advisors

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STRENGTHMATTERS[®]



Continuing Professional Education (CPEs) Requirements for CPAs

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- For more information on CPE credits, contact Lindsay Wells at consult.lwells@gmail.com.

Questions

- We will pause during presentation and again at the end for Q&A.

Polling Question #1

Are any of you actively considering a business combination?

– Yes or No (show of hands)

Business Combinations

There has been a recent uptick in asset acquisitions, mergers and other “business combinations” to enhance and expand capacity and services or to simply grow. Come hear how two affordable housing organizations have/are expanding their platforms. Learn how they identified the opportunity and the support they brought in to create and structure the transaction. Then hear from the consultant who worked with them both.



ABOUT EDEN – Who we are

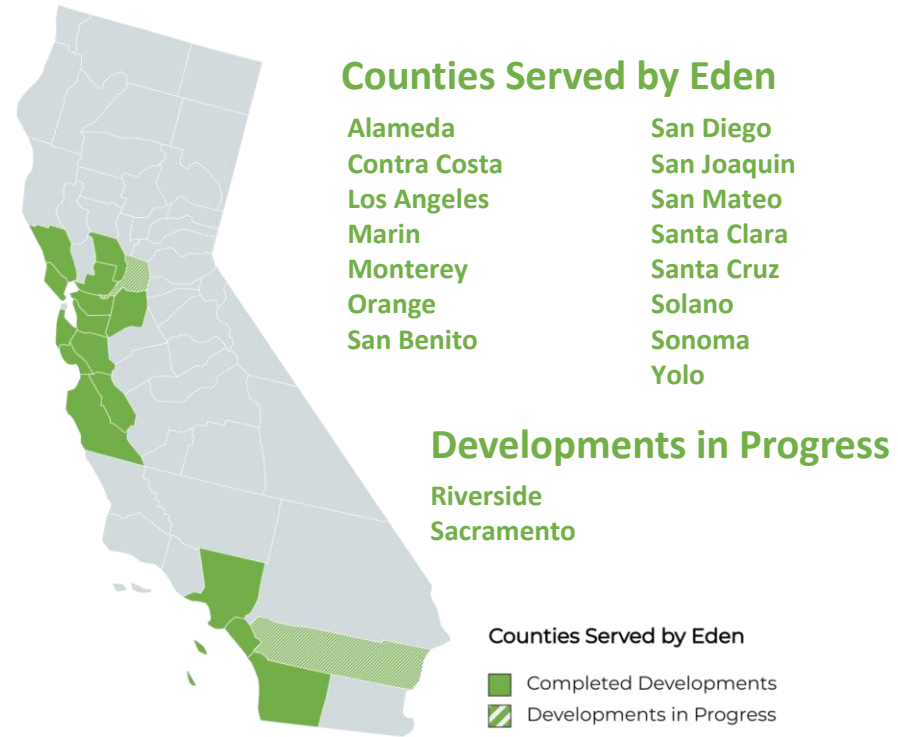
- California-based non-profit established 55-years ago
- 150+ properties in 16 counties & 50+ cities
- 10,000+ homes
- 22,000+ residents

Eden Housing creates and sustains high-quality affordable housing communities that advance equity and opportunity for all.





ABOUT EDEN – Where we work





Eden's Portfolio Acquisitions

- 3 portfolio acquisitions (not mergers) between 2010-2019



2010

Citizens Housing

10 properties; 925 units

8 cities; 7 counties

What Happened:

1. Issues with existing portfolio performance
2. Several projects under construction were over budget and needed significant infusions of capital beyond a simple deferral of developer fees; and
3. The downturn in the economy resulted in limited financial resources and prospective projects



2010

Citizens Housing

10 properties; 925 units

8 cities; 7 counties

Lessons Learned:

1. Be prepared to cut your losses when a project goes poorly/ you cannot do anything at any cost during operations
2. Choose your partners wisely
3. Have a succession plan for the Executive Director
4. Know where you are best at working
5. You cannot do anything at any cost during the transition
6. Be clear about your expectations with investor/lenders/regulators
7. No matter how carefully you plan the winddown, it will take longer than you plan

2014
to
2018

South County Housing

41 properties; 1652 units

12 cities; 4 counties

What Happened:

1. Issues with existing portfolio performance
2. Overleveraging / corporate loan guarantees
3. Overexposure to land loans / single family homes during the economic downturn
4. Insufficient corporate reserves



2014
to
2018

South County Housing

41 properties; 1652 units

12 cities; 4 counties

Lessons Learned:

1. Know when to say “no” to partners when considering taking on challenging properties / do your due diligence
2. Ask lenders for help early on; keep them informed
3. # of properties matters more than the # of units
4. Layered financing = delays in transition
5. Manage integration of company cultures
6. It is in your interest to keep the other side in business long enough to complete the transaction
7. Have a clear deadline to exit executives

Polling Question #2

- Does your organization have a clearly defined succession plan in place?
 - Yes or No

Vacaville Community Housing

6 properties; 437 units

1 cities; 1 counties

2018-19

What Happened:

1. No succession plan for a retiring Executive Director
2. No staff / no new developments
3. Operated in one city with limited resources after RDAs were eliminated



Vacaville Community Housing

6 properties; 437 units

1 cities; 1 counties

2018-19

Lessons Learned:

1. Choose your partners and legal counsel wisely. Don't let for profit partners push you around
2. Professional development/asset management staff is needed to run a successful organization
3. Devil is in the details
4. Build local relationships
5. Board of Directors legacy is important





Who we are

- Virginia based
- Established in 1974 (50-year anniversary in '24)
- Operating across VA, DC, 6 counties
- 33 properties (27 self-managed)
- ~2200 units
- ~4500 residents
- HILLS – Hope, Inclusiveness, Leadership, Leverage, Stewardship



Wesley's portfolio acquisition

- Transaction currently in process
- To Be Named Operator in Virginia

- Why does this opportunity make sense for us?
 - No integration of staff
 - No systems integration of systems
 - Stabilized portfolio, entirely managed by a reputable management agent
 - Expanded geographic footprint that mitigates portfolio risk
 - Development opportunities within expanded footprint
 - War chest of cash at the corporate/sponsor level with very little exposure to financial commitments and contingencies beyond the existing “garden-variety” LIHTC guarantees

Wesley's portfolio acquisition

- Similarities

- Methodist affiliated

- Total # of Units

- Virginia based

- Boards of Directors of Similar Profile

- Differences

- Neat/Tidy vs. Messy

- Management Styles or Business-First No-Nonsense Approach vs. Collaboration-First Approach

- Reliance on Consultants vs. Extensive Infrastructure (“Do it Yourself Shop”)

- 1 Employee vs. ~100 Employees

Wesley's portfolio acquisition - Lessons Learned/Learning

- Identify Expectations Early
- Board Dynamics and Integration
- Get Consultants & Legal Counsel Engaged Early and Set the Expectations Clearly
- Be & Expect Transparency from your new Partner
- Define the Objectives of the “Transaction” and Scope Early
 - Due Diligence Phase
 - Consent/Approval Phase
 - Closing Transaction Phase
- Thorough Review/Update/Integration of Organizing Documents (Articles, Bylaws, etc.)
- Think about and Plan for the Infrastructure Impacts on Your Organization Early, even if they are rather Benign
 - Staffing
 - Asset Management Integration (esp. with a portfolio acquisition)
 - Accounting & Financial Reporting

Polling Question #3

Which is the most important element in considering a merger?

- A. Alignment of Boards
- B. Clearly defined leadership for new organization
- C. Due Diligence
- D. Understanding of liabilities of two organizations

Polling Question #4

Why should you use an asset acquisition model versus merger?

- A. Save time and money
- B. Safeguard from corporate liabilities
- C. Branding – no need for differentiated entities
- D. Other



- National consulting practice working with Nonprofits, Foundations, CDFIS, Lenders and Funders
- Engagements in the “combination” space include:
 - Eden – South County Housing
 - Wesley Housing
 - Opportunity Communities
 - Mergers in New England, Southwest
 - Acquisitions Western Region



- Scope of engagements include, some or all of:
 - Due Diligence Support
 - Workout
 - Principal for one party in the transaction
 - Consent Management

Types of Business Combinations

- Many of types of combinations
 - Acquisition of Assets
 - True Merger
 - Shared Services
- Type of combination driven by business purpose(s):
 - Expansion
 - Workout
 - Retirement/Lack of Succession Planning
 - Expertise/Partnering



- Client Level

- Do the transaction for the right reason
- Clear eyed view on objectives and leadership
- Be prepared to spend time and money and be prepared for the distraction within your organizations

- Transaction Level

- Board Alignment – the first step in process
- Due Diligence – there are no shortcuts
- Structure should flow from Due Diligence findings (assessment of liabilities and risk)

Positive Outcomes

Clear leadership transition

Board combinations

Retained Jobs

Preserved Housing Stock

Growth

Elimination Liabilities

Growth in portfolio

Increased liquidity for organization



Negative or Uncertain Outcomes

Merger (not recommended)

Results:

- Diluted funding base
- Workouts after the fact
- Loss of key personnel
- Years of struggling
- Increased liabilities



Too early to tell

Opportunities:

- Preservation housing
- Potential reduction in liabilities
- Community based organization with grass roots in market
- Efficiencies and enhanced services

Form of transaction uncertain

- Employee lawsuits
- Liabilities unclear

Polling Question #5

Which of the following is not a business combination for purposes of this presentation?

- A. Merger
- B. Asset Acquisition
- C. Shared Services Arrangement
- D. Joint Venture

CONTACT INFORMATION

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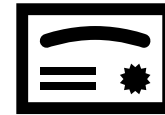
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Evaluation Reminder

- Please submit all conference evaluations. Use the electronic evaluation link in your email.
- Contact consult.lwells@gmail.com if you do not receive the link.