



## RATING ACTION COMMENTARY

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

Tue 06 Jul, 2021 - 9:18AM ET

Fitch Ratings - New York -06Jul 2021: Fitch Ratings has affirmed the 'A-' Issuer Default Rating (IDR) for Riverwoods at Exeter,NH.

The Rating Outlook is Stable.

Riverwoods at Exeter has \$52 million of debt that is directly placed with banks that are not rated by Fitch, but the debt is incorporated in the IDR.

## SECURITY

Security features are not relevant to the IDR.

## ANALYTICAL CONCLUSION

The 'A-' rating is supported by the Riverwoods at Exeter's strong liquidity position that provides the community with financial cushion to absorb pandemic-related disruptions and higher levels of capital spending. Although operational performance weakened over the pandemic, Fitch believes that the community's strong market position and excellent independent living unit (ILU) demand will help support a quick rebound despite some lingering weakness in skilled nursing facilities (SNF) and assisted living (AL) census levels.

<https://www.fitchratings.com/research/us-public-finance/fitch-affirms-riverwoods-at-exeter-nh-at-a-outlook-stable-06-07-2021>

## KEY RATING DRIVERS

### Revenue Defensibility: 'a'

#### Strong ILU Occupancy and Market Position

The strong revenue defensibility is supported by historically strong occupancies with ILU, ALU, and SNF occupancies that have averaged 97%, 77%, and 91%, respectively. Census levels softened slightly during the pandemic but are expected to recover. The favorable service area and a strong market position have helped Riverwoods at Exeter consistently draw residents from outside of the state and 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 the Riverwoods at Exeter's adequate operating cost flexibility over the last five years, consistent with its position as a type-A lifecare contract provider. Operations weakened through the pandemic but a recovery to historic performance is expected 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 large common space renovations planned at two of the campuses.

### 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 March 31, 2021, unrestricted cash and investments grew to \$83.3 million, which translated to cash-to-adjusted debt of 163.4%, up from \$70.3 million and 129.1% in fiscal 2019. Fitch-calculated MADS coverage was 1.5x for the period, but coverage is expected to recover to above 2.0x over the next few years. 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.

## 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>.

Located in Exeter, New Hampshire, Riverwoods at Exeter is a type-A continuing care retirement community with 393 IL units, 71 AL units and 78 SNFs 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 and subsidiaries with asset transfers and loans over the last few fiscal years. Analysis is based solely on Riverwoods at Exeter; however, Fitch monitors activity between the parent and subsidiaries.

Riverwoods at Exeter comprises 70% of consolidated operating revenues and 50% of consolidated Riverwoods Group's assets in fiscal 2020. In fiscal 2020 (June 30 year-end), Riverwoods at Exeter reported total operating revenues of \$40.9 million.

## **REVENUE DEFENSIBILITY**

Riverwoods at Exeter has historically maintained strong demand, with an average of 97% ILUs, 77% of ALUs, and 91% occupied over the last five fiscal years (fiscals 2016-2020). Despite restrictions on tours and move-ins, ILU occupancy has remained relatively stable through the pandemic, with an average occupancy of 96% in fiscal 2020 and 95% through the first nine months of fiscal 2021 (March 31, 2021). The community also maintains a robust waiting list of over 300 units with a 10% deposit.

SNF and AL occupancies have declined due to a decrease in direct admits and movements through the continuum of care, with average occupancy falling to 70% and 73%, respectively, through March 31, 2021. Fitch expects occupancy to rebound as transfers through the continuum pick back up but could take several years to recover to pre-pandemic levels.

Although Riverwoods at Exeter faces a fair amount of competition in the market, the solid market position is supported by the services area's favorable demographic and economic indicators and New Hampshire's status as an attractive retirement destination which has helped support excellent demand both at Riverwoods at Exeter and its two sister communities. Additionally, Fitch views positively Riverwoods at Exeter's ability to draw residents from outside the state, who made up 58% of residents in fiscal 2020.

The community has a history of regular entrance fee and monthly service fee increases and maintains flexibility to raise rates further if needed. Weighted average entrance fees and monthly service fees of around \$510,000 and \$5,300, respectively, are highly affordable relative to the strong local real estate market and the average resident net worth of \$4.4 million.

## **OPERATING RISK**

Riverwoods at Exeter offers Type-A contracts with three types of entrance fee agreements; 90% refundable, 50% refundable, and declining balance refund.

The community has historically maintained adequate operating performance with an operating ratio, net operating margin (NOM), and NOM-adjusted (NOMA) that averaged 95.2%, 3.1%, and 18.9% from fiscal years 2016-2019. Disruptions from the pandemic, including lower net entrance fees from ILU restrictions, lower censuses in AL and SNF, and pandemic-related expenses led to a deterioration in operating performance in fiscal 2020, with an operating ratio, NOM, and NOMA of 98.8%, negative 4.4%, and 6.9%, respectively.

Operations continued to lag historical averages through the first nine months of fiscal 2021, leading to a debt service coverage violation for March 31, 2021 (rolling 12-month, tested quarterly), which was waived by the community's lenders. However, due to a significant increase in move-ins in the fourth quarter, Riverwoods at Exeter is expected to well exceed its 1.2x covenant for fiscal 2021. Fitch expects that the community will continue to rebound from pandemic-related disruptions and that operating performance will recover to historical level, albeit with some year-to-year volatility due to the timing of net entrance fee receipts.

Capital spending has averaged 85.6% of expenditures over the last five years. After completing the last major campus renovation in 2015 at the Woods campus, the community is planning large common space renovations at the other two campuses, Ridge and Boulders, over the next two years for a projected cost of around \$16 million total. These projects will be funded out of cash flows and reserves and the higher expected capital spending over the next few years will help to moderate the average age of plant which has risen to 13.8 years as of fiscal 2020.

Riverwoods at Exeter has historically maintained adequate capital-related metrics, with an average maximum annual debt service (MADS) to revenue of 9.8%, revenue-only MADS coverage of 1.0X, and debt to net available of 5.8x. Pandemic-related disruptions led to a deterioration in some of these metrics, with revenue-only MADS coverage and debt to net available falling to 0.9x and 9.4x, respectively, through March 31, 2021; however, Fitch expects that capital-related metrics will return to levels that are consistent with the midrange assessment as operations recover.

## **FINANCIAL PROFILE**

Riverwoods at Exeter maintained robust liquidity through the first nine months of fiscal 2021, mitigating the operational disruptions from the pandemic. The increase in unrestricted cash and investments was driven by strong investment returns and the early repayment of the \$12 million loan made to Durham, of which \$4 million was received in fiscal 2020 and \$8 million received in fiscal 2021. There are no plans for additional loans to affiliates, and asset transfers to the parent are capped at \$8 million over any three-year period, which lessens the risk of a significant impact on liquidity given the robust balance sheet. Days cash on hand was a strong 816 days as of March 31, 2021.

Fitch views Riverwoods at Exeter's strong liquidity position as providing ample flexibility to the community to weather operational disruptions driven by the pandemic and the higher levels of capital spending going forward without pressuring the rating at this time. Through

Fitch's forward-looking stress, which includes an operational and issuer-specific portfolio stress, Riverwoods at Exeter is expected to maintain leverage metrics that are consistent with the 'a' financial profile assessment.

## **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](http://www.fitchratings.com/esg)

## RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
RiverWoods at Exeter (NH)	LT IDR	A- Rating Outlook Stable	Affirmed	A- Rating  Stable Outlook
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 \(pub. 23 Feb 2021\) \(including rating assumption sensitivity\)](#)

[U.S. Public Finance Not-For-Profit Life Plan Community Rating Criteria \(pub. 02 Mar 2021\) \(including rating assumption sensitivity\)](#)

## APPLICABLE MODELS

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

Portfolio Analysis Model (PAM), v1.3.2 (1)

## ADDITIONAL DISCLOSURES

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RiverWoods at Exeter (NH)

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